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S T A T E M E N T

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TO THE

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ROYAL COMMISSION ON TAXATION

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ON BEHALF OF THE

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CANADIAN TAX FOUNDATION

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1 1. The Canadian Tax Foundation welcomes this
2 opportunity to appear before this Commission at the
3 opening of the preliminary hearings. Your Chairman has
4 asked that our statement raise issues rather than try to
5 settle them, and this the following attempts to do.

6
7 2. As the Chairman and members of the Commission are
8 aware, the Foundation is an independent research
9 organization sponsored by the Canadian Institute of
10 Chartered Accountants and the Canadian Bar Association.
11 Its purpose is to conduct, initiate and encourage
12 impartial, expert research into problems of taxation
13 and government finance, and it publishes the results
14 thereof. All Foundation studies have been made available
15 to Commission members and research staff, and the
16 resources of the Foundation will throughout continue to
17 be available to the Commission. Moreover, the Foundation
18 expects that the Commission will be assisted by the
19 research being carried out at Queen's University on the
20 effects of taxation on Canada's economic growth. This
21 project is being sponsored by the Foundation with
22 special assistance from a broad segment of its corporate
23 supporters. The Queen's study group is co-ordinating
24 its work with that of the Commission's research staff.

25 3. While the Foundation is sponsored by the
26 professional bodies above mentioned, it receives its
27 financial support not from them but from its own
28 supporters, which at the moment comprise some 800
29 corporations and 3,600 individuals, a great majority of
30



1 whom are Canadians. However, the observations contained
2 in this brief are made without any formal canvass of the
3 individual views of those members, and with regard only
4 to the general interest of Canada as a whole and not to
5 the interests of any particular individual or group.

6
7 4. What follows is a background statement and an
8 outline of main issues in Canadian taxation (excluding
9 customs duties, consideration of which is understood to
10 be outside the Commission's terms of reference).

11 BACKGROUND

12 High Taxes - The Root of Tax Difficulties

13
14 5. High taxes aggravate the ills in any tax system.
15 While on the available evidence a number of other
16 western countries have a higher total tax burden than
17 Canada, nevertheless the high level of taxation is at
18 the root of the concern about taxation in this country.
19

20 6. In Canada in recent years, the growth of
21 expenditures at all levels of government in relation
22 to the growth of the economy has resulted in levels of
23 taxation which have no peacetime precedent. In 1961,
24 the latest complete year for which figures are available,
25 the proportion of expenditures to Gross National Product
26 reached 32.3%, a percentage only exceeded in 1945 when
27 total government expenditures reached their wartime
28 peak and represented 42% of G.N.P. (For details see
29 THE NATIONAL FINANCES 1962-3, pp.14/16). Preliminary
30



1 figures for 1962 and estimates for the current year
2 indicate clearly the continuation of the trend for total
3 government expenditure to outpace the growth of the
4 economy.

5 7. Concern is amplified by a further fact. Even
6 with the current level of taxation, tax revenues
7 together with total government revenues from other
8 sources are at present falling short of expenditure
9 levels by amounts which, while appearing small in
10 percentage terms, are nevertheless appreciable. In 1961
11 the shortfall of revenues of all governments was
12 approximately equivalent to 2.4% of G.N.P.

13 8. These shortfalls have, to some extent, been
14 induced to stimulate the economy. Nevertheless, the
15 continuing pressure of government expenditures, mounting
16 more rapidly than the economy is expanding, makes it
17 probable that in coming months taxes will increase rather
18 than decrease, particularly at provincial and municipal
19 levels. It may be interesting to note in this regard
20 that on a national accounts basis (which takes into
21 consideration extra-budgetary transactions such as the
22 unemployment insurance and the old age security funds)
23 there is actually a substantial surplus at the federal
24 level of receipts over expenditures, if federal transfers
25 to the other levels of government are excluded. The
26 real deficits are at the provincial and municipal levels,
27 principally the latter.

28 9. It may be noted that Canadians are not alone in
29 their concern about their tax structure. For example,
30



1 Australia and Japan and more recently Ireland and
2 Belgium have carried out examinations of various aspects
3 of their tax structures, and the Commission is well aware
4 of the tax reform debates currently taking place in the
5 United States. In Europe strenuous efforts are being
6 made to harmonize the tax structures of the Common Market
7 countries. Even in Russia Mr. Khrushchev found it
8 necessary a few months ago to abandon his efforts to
9 abolish income taxes notwithstanding that he considers
10 them to be a capitalistic evil!

11
12 10. Some of the issues and questions with which this
13 Commission must grapple relate to the effects of tax
14 levels and structures on the ability of Canadian
15 producers to compete at home and abroad; others relate
16 to the equities

- 17 (i) as between taxpayers with a group having the
18 the same apparent taxable capacity, and
19 (ii) as between taxpayers of apparently different
20 taxable capacities.

21 11. High tax rates and inequities produce both
22 measurable economic effects and other effects which
23 might best be described as psychological. While the
24 latter cannot be readily measured, they may influence
25 the economic behaviour of individuals as much as, and
26 possibly more than, those which are measurable. As a
27 result it may prove extremely difficult, and in many
28 cases perhaps impossible, in considering the matter,
29 to separate the economic from the psychological impact
30



1 of taxation.

2
3 12. The central task before the Commission (and the
4 various provincial tax committees set up to co-operate
5 with it) is to produce recommendations the adoption
6 of which will result in a tax structure that can be
7 generally accepted as an essentially logical, fair and
8 practical mechanism for the collection of sufficient
9 revenues to pay for the multitude of services that
10 taxpayers demand or expect of their governments today.

11 13. The central questions at this juncture are:

12 (i) What aspects of the Canadian tax system
13 create a drag on the economic progress of
14 Canada and Canadians?

15 (ii) How can they be modified or eliminated?
16

17 14. It would appear that the first step in seeking
18 answers to these questions is to sort out, and if
19 possible to establish, what might be termed a unified
20 theory of taxation in relation to theories for
21 stimulating economic growth under current economic
22 conditions. Only then will it be possible to consider
23 realistically what changes can be made to improve the
24 tax structure in a broad, as opposed to a technical,
25 sense to the end that the process of collecting public
26 revenues has the least possible repressive effect on the
27 growth of the private sector of the economy, and therefore
28 on the country generally.

29 15. While in the main the comments in this brief are
30



1 directed to the more or less permanent structural issues,
2 the Commission will have to consider both long and short
3 term aspects and theories of fiscal policy including
4 methods which would permit it to be used as a flexible
5 instrument to implement general fiscal policy from time
6 to time.

7
8 16. In connection with the long term objectives of
9 the tax structure, it will be important to consider the
10 circumstances under which encouragement of investment
11 expenditures or encouragement of consumption expenditures
12 is the most likely to produce growth. Conclusions
13 reached by the Commission on the question will be likely
14 to influence its opinion as to the proper direction that
15 any shifts in emphasis among various forms of taxation
16 should take. Shifts in either direction may involve
17 conflicts with generally prevailing concepts of fairness.
18 "Fairness" seems, in the popular view, to depend upon
19 whether a tax is regressive, proportional or progressive,
20 the first category being the main target of the charge
21 of unfairness. It is suggested, however, that the true
22 nature of a tax can be judged only by examining the
23 actual structure of the taxing statute itself. Whether
24 a tax belongs to one category or another depends not on
25 its name but on the various exemptions, deductions,
26 allowances, etc., permitted. This is true whether it
27 be a tax on income, a tax on consumption such as the
28 sales tax, or a tax on assets such as the estate tax or
29 municipal real property taxes. For example, if it is
30 assumed that corporate taxes are passed on in prices, it



1 can be argued that a tax on corporate profits can be
2 as regressive as, or more regressive than, a carefully
3 constructed consumption tax which exempts foodstuffs
4 and other basic necessities.

5
6 17. Generally speaking, assuming the requirement of
7 a constant level of revenue, tax reform can move in
8 either of two directions: to a wide tax base with lower
9 rates, or to a narrow tax base with higher rates.

10 18. The tax base can be expanded by extending the
11 scope of existing taxes, or by adding new types of tax,
12 or by a combination of both. This should permit the
13 statutory rates of taxes to be lowered, which in turn
14 should reduce the gravity, if not the number, of
15 inequities and anomalies. The narrowing of the base
16 naturally leads to higher rates of tax on the remainder;
17 and, also naturally, to the accentuation of inequities
18 and anomalies. Relief from this calls in turn for
19 more and/or higher exemptions and deductions; these
20 further narrow the tax base, and the cycle is repeated.

21
22 19. The discovery of ways to permit the lowering of
23 marginal personal and corporate income tax rates (which
24 are generally considered to be more appropriate for
25 periods of persistent inflation than for present
26 conditions), while preserving equity and government
27 revenues, is regarded by many as the main task before
28 the Commission. In Canada, where practically all
29 acceptable tax sources are already in use and the rates
30 are already quite high, the room to manoeuvre is limited.



1 Changes in any direction will shift to some extent the
2 incidence of tax burdens amongst taxpayers. However,
3 since the upper reaches of the graduated scale of
4 personal rates are not very significant from a revenue
5 standpoint, shifts in incidence from changes in this
6 area would not be particularly significant either. In
7 any event, since we do not know with any degree of
8 precision just who bears what tax burdens, or who
9 ultimately, as individuals, benefits from the expenditure
10 of tax money, it will be difficult to conclude exactly
11 what effects shifts in the tax structure will produce.
12 However, it is to be noted that ultimate tax burdens
13 result from the total effects of all taxes imposed by
14 all levels of government.

15
16 Conflict of Objectives

17
18 20. In a very real sense a system of taxation reflects,
19 and must reflect as far as possible, the hopes,
20 expectations and social outlooks in our society and,
21 to the extent that these continue to conflict, there
22 will be conflicts in our tax system. The work of the
23 Commission will be to recommend adjustments to the tax
24 system to take account of, and to suggest workable and
25 realistic compromises on, as many of these factors as
26 possible in the light of current economic realities.

27 21. Put in another way, the Commission should seek
28 workable balances between the demands for revenue, equity,
29 simplicity, administrative feasibility, logic, economic
30



1 goals, and social theory. Each area involves the
2 exercise of judgment, and no amount of technical
3 expertise, wisdom or research will spell out indisputable
4 answers to many issues. The value of research is to
5 permit these judgments to be made in the light of the
6 best evidence and reasoning available, but, in the end
7 result, the Commission will have to rely on informed
8 opinion and its own best judgment and on commonsense.

9
10 22. The shape of the Canadian tax structure must
11 take into account, and to some degree the possibilities
12 for its revision are limited by, the following factors:

13 (a) the Canadian federal system as set out in
14 the British North America Act which attempts to
15 delineate both taxing and expenditure
16 jurisdictions;

17 (b) the physical characteristics and size of
18 Canada; its geographic location; its present
19 state of development; the structure and type of
20 our industry;

21 (c) the aspirations of Canadians and their sense
22 of what is fair or unfair;

23 (d) our reliance on world markets and foreign
24 capital; the tax structures in other countries;
25 our international treaty commitments;

26 (e) the distribution in Canada of resources and
27 population; the distribution of wealth through
28 the population;

29 (f) the distribution of age groups within the
30 population;



1 (g) the state of legal, accounting and business
2 knowledge and practices;

3 (h) our concept of responsible government and
4 judicial theory for the interpretation of tax
5 laws.

6
7 23. These factors, many of them intangible and some
8 of them variable, illustrate the extreme complexity of
9 some of the problems facing the Commission and suggest
10 that whatever changes are recommended may be open to
11 attack on one ground or another. Perfection may be no
12 more possible in taxation than it is in many other fields
13 of endeavour. But while realism demands recognition of
14 the limitations to perfection in our tax structure, the
15 aim must nevertheless be to come as close to it as
16 possible. This may well lead to the conclusion that our
17 tax structure should be subjected to overall review at
18 regular intervals to assure taxpayers that it continues
19 to meet Canada's needs.

20 24. While at this juncture many may dispute the fact,
21 it should be pointed out that Canada now has a well-
22 developed tax structure which, notwithstanding its
23 imperfections, ranks with the best in the world. Through
24 this Commission, Canada has a greater opportunity than
25 is open to many other countries at this time to devise
26 the best.

27
28 GENERAL ISSUES AND QUESTIONS

29
30 25. Many of the broad issues listed hereunder are



1 common to most western tax systems; moreover, many of
2 them are interwoven and can be stated in several
3 contexts, so that a certain amount of repetition is
4 unavoidable. An attempt has been made to abstract
5 the principle involved rather than to describe the
6 specific problems in the customary way. To some extent
7 the issues involve, and even arise out of, the different
8 approaches to tax policy taken by economists, lawyers,
9 accountants and businessmen. Representatives of these
10 groups will no doubt in due course be presenting to the
11 Commission detailed descriptions of the problems as they
12 have been able to observe them.

13
14 26. The order of presentation in the following pages
15 does not embody an opinion as to relative importance,
16 either to taxpayers or to the Revenue.

17 Tax Neutrality

18
19 27. In abstract theory one might visualize a tax
20 system which raised revenue in such a way that all
21 economic relationships would remain the same, and all
22 economic decisions would be the same, as they would have
23 been if no taxes were levied. Such a system would be
24 "neutral". Deviations which resulted in lighter taxes
25 for some individuals or business activities could be
26 described as preferences, or as incentives if the
27 objective was to get people to do things they might not
28 do otherwise. Deviations in the other direction could
29 be called discriminations, or "disincentives", if the
30 objective was to discourage people from doing things they



1 might otherwise do.

2
3 28. Tax policy makers can try within limits to achieve
4 absolute neutrality (which is probably impossible) or
5 alternatively, by such deliberate deviations, they may
6 attempt to reshape economic relationships.

7 29. While there may appear to be a clear choice
8 between the neutrality and reshaping approaches to
9 taxation, it is one thing to choose a direction and
10 another to determine, in specific instances, the
11 treatment required to achieve one goal or another. To
12 achieve tax neutrality might require a special feature
13 in one context, and the removal of a provision in
14 another; it might require the removal of tax in one case,
15 or the extension of the tax net in another.

16
17 30. Tax incentives, such as the percentage depletion
18 allowance for extractive industries, are generally
19 considered deviations from "neutrality". Current debate
20 in the United States on whether part of the allowance
21 may in fact help achieve tax neutrality as between
22 industries illustrates the difficulty of determining
23 the direction in which a particular provision points.
24 The question in this area is whether or not such
25 incentives result in an appropriate allocation of
26 resources between industries. In some cases it is
27 quite clear that industries and products are taxed more
28 heavily than the average. Alcoholic beverages, tobacco
29 products, toiletries and cosmetics are in this category,
30 and in their case neutrality has deliberately been



1 sacrificed for revenue reasons. A distinction has to be
2 drawn between these consumption taxes and others which
3 are essentially user charges, such as the provincial
4 gasoline taxes.

5
6 31. Some preferences and discriminations arise
7 accidentally out of the application of essentially
8 "neutral" tax concepts to tax situations which are
9 fundamentally different in a legal or accounting sense.
10 For example, bondholders of a company are its creditors,
11 whereas shareholders are its owners. Because these
12 two relationships are different in law, a company is
13 allowed to deduct from profits interest paid to
14 bondholders, but not dividends paid to shareholders.
15 Nevertheless in practice these are alternative methods
16 of financing. Though one or other may be more suitable
17 for a particular company for non-tax reasons, its use
18 can result in a tax disadvantage - or advantage. Whether
19 tax laws can or should attempt to "neutralize" this type
20 of situation is open to question.

21 32. The economic rationales behind deliberate
22 preferences and discriminations in the tax system differ
23 widely, but generally the public good is believed to be
24 served. Since views as to what really is in the public
25 interest range so widely, it is not surprising that
26 opinions about the suitability of specific preferences
27 and discriminations vary likewise. What may be considered
28 an incentive by one taxpayer may be looked upon as an
29 inequity by another.

30



1 33. An examination of the various features of our
2 tax system which appear to depart from some assumed
3 norm, and a review of the reasons for their existence,
4 will comprise an essential part of the work of the
5 Commission, which will no doubt wish, after examining
6 the special features of Canadian and foreign tax laws,
7 to consider whether or not:

- 8 (i) such special features accomplish, or, if
9 modified or enlarged, could accomplish, the
10 purpose for which they are designed;
11 (ii) the price of such accomplishment in terms
12 of revenue, distortions, administrative
13 difficulties or complexity is in keeping with
14 the benefit; or
15 (iii) their purpose might be better accomplished
16 by some other means.

17
18 34. In another sense, one of the basic issues before
19 the Commission is the extent to which our tax laws can
20 be used effectively, or should be used directly, for
21 purposes other than that of raising revenue. For example,
22 how far should our tax laws consciously attempt to:

- 23 (a) distort or influence business and personal
24 investment, savings and expenditure decisions
25 in directions that from time to time appear to
26 be in the public interest, such as the encourage-
27 ment of, or assistance to, particular segments
28 of business and industry or forms of business
29 organization;
30 (b) equal, or in a spirit of tax competition



1 exceed, preferential tax treatment granted in
2 foreign jurisdictions;
3 (c) equalize other factors such as risks or
4 distance from markets in the case of business,
5 or income or wealth disparities and disabilities
6 such as age and physical condition for
7 individuals;
8 (d) influence the ownership of Canadian industry.

9
10 Some Basic Problems

11 35. The confluence of the corporate with the
12 capital-income concept and with graduated or "two-step"
13 (as in corporate tax) rate schedules gives rise to the
14 vast majority of our income tax problems. The best
15 known, and perhaps the most pressing, problem involving
16 all three of these concepts is that of corporate
17 distributions. Obviously the corporate concept cannot
18 be arbitrarily removed from the tax system, but it
19 should be noted that neither the Revenue nor taxpayers
20 take a consistent position on the question of whether a
21 corporation should for all purposes be treated as a
22 separate entity. Both sides seek to pierce or
23 reinforce the corporate veil as best suits their purpose.
24 In most cases the conflict involves the desire to impose,
25 or avoid the impact of, high marginal income tax rates.

26
27 36. The capital-income concept, in all its ramifi-
28 cations from capital gains to business deductions and
29 capital cost allowances, is perhaps even more difficult
30 to cope with. Objective tests for distinguishing between



1 capital and income are difficult to prescribe because
2 to a very large extent the distinction depends upon a
3 subjective relationship between money or things and
4 the taxpayer.

5
6 37. Graduated or "two-step" rate schedules are purely
7 creatures of tax policy. Current rate structures should
8 not be regarded as having any intrinsic merit or
9 sanctity beyond their revenue raising and stability
10 function, since any number of scales can be devised to
11 take account of equity or ability-to-pay requirements,
12 depending on the weight given this factor. Leaving
13 aside the question of equity, it can be said that a
14 single proportional rate for both the corporate and
15 individual income tax would remove at a stroke many,
16 if not most, of the technical trouble-spots in the field
17 of income taxation.

18 38. Logical arguments can be advanced to support the
19 view that the ability-to-pay concept need not necessarily
20 be violated by the adoption of a proportionate tax when
21 used in conjunction with appropriate personal exemptions.
22 These arguments, notwithstanding that graduated rate
23 scales in the individual income tax in Canada (and other
24 western countries) have become firmly linked with the
25 concept of ability-to-pay, nevertheless deserve fair
26 examination in the light of current equitable and
27 technical problems. But whether or not it is concluded
28 that the proportional concept is appropriate at this
29 time, it would appear that any lessening of the spread
30



1 in rates would contribute to the solution of many
2 technical problems.

3
4 39. There can be no doubt but that the allure of
5 tax planning increases with the degree of graduation
6 within the personal and corporate income tax rate scales,
7 as well as with the spread between personal and
8 corporate rates. Apart from the fact that tax avoidance
9 diverts highly skilled minds from more positive pursuits,
10 it would also appear that greater revenue losses can
11 occur through skilful tax planning, prompted by rate
12 spreads, than would result from more moderate rates.
13 This applies to death tax rate structures as well.

14 Tax Law Issues

15
16 40. It will be necessary to consider:

17 (a) having regard to the complexities of present
18 day business practices and relationships, the
19 extent to which our tax laws can be simplified
20 by statements of general principles as opposed
21 to detailed legislation;

22 (b) in order to achieve equitable results, or
23 to take account of structural differences as
24 between business entities, the extent to which
25 taxpayer, administrative or judicial discretion
26 should, can or must be permitted in determining
27 tax liability;

28 (c) the extent to which tax laws should follow
29 or by-pass principles of law and accounting with
30 a view to achieving logical or equitable results;



- (d) the extent to which the present system of business deductions, including the capital cost allowance system, has kept pace with changing concepts, conditions and business practice;
- (e) the extent of non-compliance with existing tax laws, particularly in income and sales taxes; and methods of ensuring greater compliance, e.g. a withholding tax on certain investment income, as recently debated in the United States, and more intensive audit programs in fields such as expenses and unreported income where abuse is traditionally suspected;
- (f) the question of whether the Canadian appeal system, in income, estate and sales taxes, provides the necessary facilities for taxpayers and operates with maximum efficiency and the least delay and expense.

Tax Base Issues

41. Questions to be studied here are:

- (a) the extent to which the present tax bases, particularly income tax bases, and definitions realistically measure the taxable capacity of businesses, individuals and family units;
- (b) having regard to the economic, revenue and administrative (and any social) ramifications, the extent to which tax bases can or should be broadened through the removal of exemptions and/or extension of the scope of taxes (e.g. to



1 capital gains in the case of income taxes, and
2 to services in the case of sales taxes) in order
3 to permit marginal rates to be lowered;
4 (c) the proportions in which different tax
5 bases - income, consumption, and ownership of
6 assets - should be used as measures of taxable
7 capacity;
8 (d) the extent to which savings, consumption,
9 investment patterns and capital accumulations
10 would be influenced by a rearrangement of the
11 emphasis on the bases listed in (c) as tax
12 sources;
13 (e) the extent to which taxes can or should
14 reflect payment for services or benefits
15 received, as opposed to the idea of general
16 levies on one or more concepts of taxable
17 capacity;
18 (f) the question as to whether there are any
19 acceptable unused tax sources which might be
20 exploited either to relieve, or as substitutes
21 for some of, the sources now in use; for example,
22 whether such forms of tax as the French value-
23 added tax offer any substantial improvement over
24 the tax concepts and bases now in use in Canada
25 at federal and provincial levels, what effects
26 their introduction might have on the structure
27 of industry and prices in Canada, and what benefits
28 might or might not accrue in international trade.
29
30



1 Corporate Taxation

2
3 42. The task of finding solutions to many of the
4 problems associated with corporate taxation will be
5 immeasurably simplified if it becomes possible to
6 determine with accuracy the extent to which the
7 corporate income tax is borne by the shareholder, the
8 employee, and the consumer respectively. However, the
9 size, structure, purpose and breadth of ownership of
10 corporations vary to such an extent that it seems unlikely
11 that meaningful conclusions concerning the final effects
12 of corporate taxation can be reached that would apply
13 with equal validity in all cases. While assumptions
14 may therefore have to be made when judging the
15 importance of some corporate tax effects and the
16 feasibility of some proposals, nevertheless the
17 existence of the above variations must also be recognized
18 when considering the effects of the corporate tax on
19 prices, profits and corporate investment, and on
20 financing decisions.

21 43. More particularly, corporate tax issues include:

- 22 (a) the extent to which, and under what
23 circumstances, corporate entities should be
24 considered as separate taxpayers in various
25 circumstances - associated companies, designated
26 surplus, personal corporations, the arm's length
27 concept, etc;
28 (b) the extent to which taxes on business
29 profits as opposed to business expenditures
30



1 penalize business efficiency, influence prices
2 and the ability of Canadian producers to compete
3 at home and abroad;

4 (c) the question of whether there is an
5 acceptable and practical alternative to the
6 present method of taxing income generated within
7 corporations;

8 (d) the extent to which the measure of a
9 corporate taxpayer's capacity can or should be
10 extended forward and backward from the customary
11 annual tax accounting period;

12 (e) the extent to which losses and gains should
13 be freely transferable as between corporate
14 entities;

15 (f) the extent to which tax law can or should
16 take account of different degrees of investment
17 risk, either as between industries or as between
18 small and large business concerns;

19 (g) whether the same rate of tax should apply to
20 distributed and undistributed profits.

21
22 Personal Taxation

23 44. In this area of importance to every taxpayer in
24 Canada, some of the main problems are:

25 (a) the extent to which the individual income
26 tax rate structure affects individual initiative,
27 risk-taking and taxpayer morale; the effect of
28 marginal income tax rates on individuals might
29 be examined from two standpoints - the pursuit
30



1 of primary occupational goals and the willingness
2 to commit savings from earnings to investment
3 opportunities rather than to consumption;

4 (b) the extent to which exemptions and deductions
5 are equitable as between:

6 (i) different income groups;

7 (ii) taxpayers apparently of the same
8 income group;

9 (c) the extent to which the treatment presently
10 afforded to employees on the one hand and the
11 self-employed on the other (notably in the matter
12 of deductible expenses) results in inequity;

13 (d) the extent to which graduated personal
14 income tax rates are required to achieve equity
15 and, from the standpoint of government revenues,
16 stability;

17 (e) the extent to which ability to pay is used
18 as a major criterion for establishing tax rates,
19 and the way in which it should be measured;

20 (f) the extent to which shifts in emphasis from
21 income to expenditure taxes for individuals,
22 given a variety of stated exemption patterns,
23 would

24 (i) shift burdens as between economic groups;

25 (ii) curtail abilities to acquire necessities;

26 (iii) change savings and investment quantities
27 and patterns;

28 (g) the extent to which the graduated income tax
29 structure and death taxes have, in fact, resulted
30



1 in a redistribution of wealth or income in
2 Canada.

3
4 45. Perhaps in this connection it would be useful to
5 examine the extent to which statistical data published
6 annually can be improved to aid the government and the
7 public to analyze the impact of taxation on various
8 segments of the economy, and to better gauge in years
9 to come the economic effects of tax changes.

10 Death Duties

11
12 46. Some important questions are:

13 (i) Whether death taxes, ordinarily part of a
14 well integrated tax structure, are necessary
15 having regard to provincial claims of exclusive
16 or primary jurisdiction in this field.

17 (ii) Whether death taxes may not be regarded
18 as obviating the revenue and perhaps the equitable
19 need for inter vivos taxes on capital, having
20 regard to the administrative complexities of
21 capital gains and wealth taxes in foreign
22 countries.

23 (iii) Whether present estate and succession
24 duties, by themselves or in conjunction with other
25 forms of taxation, influence unnecessarily the
26 sale of Canadian enterprises to foreigners or
27 disrupt the continuity of business organizations.

28 (iv) Whether the current weight of death taxes
29 is appropriate for Canada's present stage of
30 development.



1 47. A broad area of investigation is the extent to
2 which Canadian tax laws can be further harmonized,
3 integrated, or made more uniform, as between:

- 4 (i) different levels of government in Canada
5 (while still respecting the autonomy of various
6 political subdivisions).
7 (ii) provinces;
8 (iii) Canada and the countries with which
9 Canada trades. (This raises the questions as to
10 whether, or to what extent, foreign investors
11 and businesses are given preferential, or less
12 burdensome, taxation than their Canadian counter-
13 parts in internal and international trade, and
14 the degree to which differences might be expected
15 to benefit or injure Canada's overall competitive
16 position.)

17
18 48. An example of possible harmonizing would be an
19 agreement between provinces to collect for each other
20 sales or other taxes. A corollary issue, though one
21 probably beyond the Commission's terms of reference,
22 is how far general fiscal policy as between levels of
23 government can be harmonized. An example of possible
24 uniformity would be to adopt a standard sales tax in
25 all provinces, with similar exemptions, rules, etc.
26 (but not necessarily rates). The prime example of
27 integration already in existence is the use by most
28 provinces of the federal personal income tax base for
29 provincial income taxes. A possibility of integration
30 would be the use by the federal government of provincial



1 sales tax collection machinery if it wished to replace
2 or supplement the manufacturers' sales tax.

3
4 Regional Development

5 49. The two major questions here are:

6 (a) the extent to which tax laws should, or
7 effectively can, be used to assist regional
8 development in Canada; and

9 (b) the effect on the fiscal responsibility of
10 other levels of government of our present system
11 of distributing tax revenues on a regional basis,
12 or from one level of government to another.

13
14 Hidden Taxes

15 50. A question often discussed is whether tax burdens
16 should be made more or less obvious to taxpayers, i.e.,
17 be "hidden" from the ultimate taxpayer as in the federal
18 sales tax, or in "in the open" as with the provincial
19 retail sales tax.

20
21 In Conclusion

22 51. It will have been noted that the foregoing is a
23 series of questions, to many of which there may be no
24 final and lasting answers. However, it is within the
25 framework of these and perhaps other questions that
26 specific tax legislation has to be drafted, enacted and
27 administered. They perhaps indicate also the variety
28 of arguments which currently surround our tax system as
29 efforts are made to construct a better one.



1 52. A final comment might be that care has to be
2 taken not to make changes which would drastically
3 dislocate the long-term contractual and other relation-
4 ships established in the light of the existing tax
5 structure and to which our economy has more or less
6 adjusted. As a result, what emerges in the Commission's
7 report may have to be somewhat different from what would
8 be theoretically desirable if it were possible for
9 Canada to start afresh.

10
11 CANADIAN TAX FOUNDATION

12
13
14 A. D. Russell, C.A.
15 Chairman

16
17 John de M. Marler, Q.C.
18 Past Chairman

19
20
21 Ronald Robertson
22 Director

23
24
25
26 Toronto

27 April 16th, 1963
28
29
30



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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STATEMENT

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to the

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8

ROYAL COMMISSION ON TAXATION

9

10

by the

11

12

EXECUTIVE COUNCIL

13

14

of

THE CANADIAN CHAMBER OF COMMERCE

15

16

Ottawa, March 5, 1963

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1 The Executive Council of The Canadian Chamber
2 of Commerce welcomes the opportunity accorded by the
3 invitation of the Commission to make this statement to
4 your preliminary hearings.

5 The Canadian Chamber of Commerce is the nation-
6 al voluntary federation of more than 850 Boards of Trade
7 and Chambers of Commerce (the terms are synonymous)
8 throughout Canada. In addition to these organization
9 members, the Chamber includes approximately 2,700
10 corporation membes composed of businesses of all sizes
11 and all geographical locations, as well as 25 association
12 members.

13 These community Boards of Trade and Chambers
14 of Commerce are established to promote the civic,
15 commercial, industrial and agricultural progress of the
16 communities and districts in which they operate; 75%
17 of these community Boards of Trade and Chambers of
18 Commerce serve communities of less than 5,000 population.
19 Included among the Canadian Chamber's objectives are the
20 development and presentation of an informed public opin-
21 ion and the securing thereby of effective action by
22 the national legislature upon questions relating to the
23 economic and public welfare. The Chamber aims at
24 supporting and developing the Canadian system of
25 representative government and the preservation and
26 further improvement of Canada's economic system based
27 upon private initiative and individual enterprise. It
28 also is concerned with the initiation and promotion of
29 policies designed to further the more effective use of
30 the nation's resources of manpower, raw materials,



1 technological knowledge, production facilities and money.

2 The Executive Council has established a
3 Committee to prepare a submission to this Commission and,
4 as of the date of this statement, the following areas
5 are expected to be covered in the submission to the
6 Royal Commission.

- 7 1. Brief resume of fiscal policy as it has been
8 implemented in Canada in recent years. This will
9 be a broad statement of our interpretation of
10 fiscal policy and a critical appraisal.
- 11 2. Weight of the tax burden and its distribution.
12 This will show the proportions of total revenue
13 derived from the major federal, provincial and
14 municipal taxes.
- 15 3. A statement of basic fiscal principles. This will
16 contain the Chamber's tax policy and a discussion
17 of tax neutrality vs. discrimination.
- 18 4. Effects of taxation on business. This will deal
19 with the impact of the corporation tax on the
20 creation of new enterprises, the effect on expansion
21 of small companies, on the availability of
22 capital, on related earnings. It will also deal
23 with the effects of municipal taxes on industrial
24 location and regional rates of economic growth.
- 25 5. Tax incentives. We shall deal with tax incentives
26 as they exist in Canada at the federal, provincial
27 and municipal levels. Among the subjects to be
28 discussed will be the tax position of co-operatives,
29 special depreciation, other special write-offs,
30 and the incentive contained in the 1962 Budget



- 1 regarding taxes on income from increased sales.
- 2 At the municipal level there will be a critical
- 3 analysis of tax concessions to business and dis-
- 4 criminatory treatment of different types of business.
- 5 A brief survey of tax incentives in foreign
- 6 countries will be included.
- 7 6. Impact of the personal income tax. This will show
- 8 distribution of the tax burden by income groups.
- 9 It will cover the effect on personal saving and
- 10 investment, as well as the problem of taxing
- 11 dividends as well as corporate income.
- 12 7. The broader tax base vs. incentives. Here, the
- 13 effects of broadening the tax base and maintaining
- 14 tax neutrality insofar as possible will be compared
- 15 with the effects of the tax incentive approach.
- 16 Among the points to be discussed are lower income
- 17 tax rates and a broader Federal sales tax base.
- 18 An attempt will be made to reach conclusions and
- 19 to rationalize proposals on economic grounds.
- 20 8. Excise Tax Act. Reference will be made to the
- 21 Excise Tax Act submitting proposals with respect
- 22 to the definition of sales price, exemptions, and
- 23 appeal procedure.
- 24 9. Estate Tax Act. Reference will be made to the
- 25 Estate Tax Act submitting proposals for relief from
- 26 the combined effect of estate tax and income tax
- 27 on certain death benefits and proposals dealing
- 28 with installment payment of taxes. optional
- 29 valuation dates, and "fair market value".
- 30



SUBMISSION OF

THE CANADIAN MANUFACTURERS' ASSOCIATION

1. The Canadian Manufacturers' Association welcomes this opportunity of appearing before the Royal Commission on Taxation for the purpose of presenting its views on the programme of study and research which is to be carried out by the Commission in accordance with its terms of reference. Manufacturers are vitally affected by taxation, and their ability to compete with foreign goods both at home and abroad depends to a great extent on the tax environment within which industry must conduct its operations.

2. The Canadian Manufacturers' Association is a non-profit, non-political organization of more than 6,000 manufacturers in every branch of industry in Canada, joined together to consider and take action on common problems. Its membership in some 600 communities from coast to coast includes concerns of all sizes, three-quarters of them employing fewer than 100 persons. In total, the members produce about 75 per cent of Canada's total manufacturing output. The Association speaks not for big industries nor for small industries, nor for regional or sectional interests, but for manufacturing as a whole.

3. Manufacturing, it might be noted, provides the job of one out of every four employed Canadians, so that the Association represents a very large segment of the national economy.

4. In the invitation which the Royal Commission on



1 Taxation extended to the Canadian Manufacturers' Associa-
2 tion to appear at this preliminary hearing in Ottawa, the
3 Association was asked to express its views on the approach
4 which should be made to the terms of reference of the
5 Royal Commission. Our statements at this time were to
6 be for the purpose of raising issues rather than settling
7 them and to focus attention upon the task of the Commission.
8 The Association was not asked at this time to express
9 its views and recommendations on Canadian taxation, but
10 to reserve such representations for a later hearing.

11 5. It will be the Association's endeavour to
12 comply as fully as it can with the wishes of the Royal
13 Commission. What we say today should not, therefore,
14 be considered as expressing directly or by implication
15 the considered views of the Association on particular
16 tax matters. The Association is pleased that the Royal
17 Commission proposes to conduct extensive research on the
18 economic effects of Canadian taxation. In the hope of
19 assisting the Royal Commission, we will direct attention
20 to a number of questions in the field of taxation that,
21 in our opinion, should be examined and studied by the
22 Royal Commission and perhaps referred to its research
23 staff.

24 The Terms of Reference
25

26 6. Since the scope of the investigations to be
27 carried out by the Royal Commission is defined and spe-
28 cified by the terms of reference contained in Order-in-
29 Council P.C. 1962-1334, of September 27, 1963, it is to
30 these terms of reference which we will first direct our



1 comments.

2 7. In the first and main paragraph of the terms
3 of reference, the Royal Commission is instructed to
4 enquire into and report upon the incidence and effects
5 of taxation imposed by Parliament (i.e. federal taxation)
6 on the operation of the national economy, the
7 conduct of business, the organization of industry and
8 the position of individuals. Of these four areas which
9 are affected by taxation, the most important is undoubtedly
10 the operation of the national economy, for upon its
11 stability and growth depends the prosperity of all
12 Canadians. Secondly only to this is the effect of tax-
13 ation on the position of individuals, since it is essential
14 that there should be equity in taxation, and that no
15 class of individuals should be impeded by injurious
16 taxation in its efforts to promote the well-being of the
17 economy. The effect of taxation in the conduct of
18 business and the organization of industry are also
19 significant, because if Canada is to compete effectively
20 with the industry of other countries, business and
21 industry must operate on a competitive basis.

22 8. There is, however, in this paragraph of the
23 terms of reference, an important and serious limitation
24 on the recommendations which may be made by the Royal
25 Commission. Its recommendations for improvements in the
26 tax laws and their administration are required to be
27 consistent with the maintenance of a sufficient flow
28 of revenue. We regret that the reference of the
29 Commission contains this restriction, since the study it
30 is directed to make will undoubtedly reveal the harmful



1 effects on the economy of the present high burden of
2 taxation. Consisting of 13.1 per cent of the gross
3 national product in 1929, the total of Canadian direct
4 and indirect taxes paid to federal, provincial and
5 municipal governments has grown steadily, reaching 24.4
6 per cent in 1961. This trend to greater taxation can
7 only end if a stop is put to the continued increase in
8 government expenditures. Unless there is relief from
9 rising government expenditure, the lot of the taxpayer
10 must grow steadily worse, with an inevitable slowing
11 up in national economic growth and a decline in
12 prosperity.

13 9. While your powers to make recommendations
14 suffers from this serious restriction, the Association
15 is gratified that you have been given wide jurisdiction
16 to study the incidence and effects of present taxation.
17 Although the terms of reference direct you to study the
18 tax system as a whole, in making these studies we would
19 respectfully suggest that you should give careful and
20 separate consideration to each of the particular taxes
21 which together form the Canadian tax system. The
22 corporation income tax, the person income tax, and the
23 federal sales tax, for instance, each have their separate
24 and individual effects which can best be examined and
25 analyzed apart from all other taxes. When separate
26 studies have been made of each tax, it will then be
27 possible and appropriate to consider the aggregate burden
28 borne by various classes of taxpayers in order to see
29 whether, and to what extent taxation is fairly and
30 equitably distributed.



1 Operation of National Economy

2 10. The incidence and effects of taxation upon the
3 operation of the national economy is, we feel, rightly
4 placed first as a subject for your investigation. It is
5 of the greatest importance to every Canadian that
6 taxation should not impede the growth and operation of
7 the national economy. There is no question but that the
8 effect of taxation on the national economy must be
9 significant, since taxes amount roughly to one-quarter
10 of the gross national product. Although some considera-
11 tion was given to this aspect of taxation a few years
12 ago in studies carried out by the Royal Commission on
13 Canada's Economic Prospects, the subject was merely
14 touched on and much more research is required. For
15 example, it is important to know to what extent high
16 taxation acts as a disincentive to save and to produce.
17 Or, again, does the method of taxation employed to finance
18 social security give the public a false impression of the
19 cost, and does it have a distorting effect on the economy,
20 stimulating the demand for even more social security with
21 an even greater distortion?

22 11. Since Canada must export goods to pay for goods
23 which cannot be grown or procured in Canada, the prices
24 of Canadian goods must be equal to or lower than the
25 prices of foreign competitors. For this reason it is
26 important to understand the effect of taxation on the
27 price structure. Where high costs tend to price Canadian
28 goods out of the market, how much of the cost is due to
29 taxation? It is also important to know whether our
30 taxes encourage or discourage the improvement of design



1 and quality in Canadian goods and the manufacture of new
2 products.

3 12. Another question which should be considered
4 from the point of view of the operation of the national
5 economy is the effect of the present distribution of
6 taxation between taxes on income and taxes on consumption.
7 For example, it is important to know whether by reason
8 of taxation the relationship between savings and con-
9 sumption is distorted by undue encouragement of con-
10 sumption with the result that there is inadequate capital
11 formation. Moreover, one important advantage of
12 consumption taxes is that it is comparatively simple
13 from an administrative point of view to make them
14 inapplicable to exports. As a consequence, exports are
15 regularly free from the burden of consumption taxes. In
16 this connection, we suggest that the Commission might well
17 examine the proportion of revenue collected from commodity
18 taxes in some of the leading industrial countries of
19 Europe. According to figures recently published by a
20 prominent New York bank, applicable to the fiscal year
21 1960, if all levels of government are taken into account,
22 France, Italy, Belgium, Australia, United Kingdom, Sweden
23 and Germany, among other countries, collect a greater
24 proportion of their tax revenue from taxes on consumption
25 than does Canada. It is important to know whether this
26 emphasis on consumption taxes has contributed to the
27 economic advances made in recent years in many European
28 countries.

29 13. Since the last war there has been in Canada,
30 as in other countries, a great expansion in the service



1 industries. These industries do not produce commodities
2 that are subject to sales and similar taxation. It has
3 lately been suggested in the Canadian Tax Journal that
4 a broad extension of the sales tax into services would
5 be sound from an economic point of view. We suggest
6 that studies might be carried out to see if the national
7 economy would benefit if some of the revenue now collected
8 from other sources were to be obtained from a tax on
9 services. In this connection, we understand that the
10 turnover taxes of France and Germany are applicable
11 to services as well as to commodities.

12 14. Particular attention, we suggest, should be
13 given to the impact of United States taxation on Canada.
14 If Canada must look to foreign investors for needed
15 capital, it is important that the Canadian tax climate
16 appear attractive to those non-residents who are in a
17 position to decide where investment will be made. It is
18 suggested that the Royal Commission should examine the
19 relationship of Canadian tax rates to those of United
20 States. At this time the question is particularly
21 important since President Kennedy has recently proposed
22 to Congress that there be significant reduction in
23 American individual and corporation tax rates.

24 15. Another matter which we suggest for your
25 examination is whether the government should be given
26 power by Parliament to reduce corporation and personal
27 income taxes by regulation within a fixed range of
28 rates as a means of fighting a threatening recession. It
29 has been claimed that a tax reduction immediately
30 effective through reduced tax deductions at the source is



1 likely to be more effective in combatting the onset of
2 a depression than increasing government expenditures.
3 This is because government expenditures on capital works
4 and other projects require considerable preliminary
5 planning and are not likely to produce significant
6 increases in spending power for a considerable period of
7 time. On the other hand, the decrease in corporation and
8 individual taxation can become immediately effective
9 through the deductions at the source from individuals
10 and the payment of tax instalments. It puts money in
11 the hands of those who are likely to spend it immediately,
12 with beneficial effect on the national economy. We
13 suggest that this proposal should receive study from the
14 point of view of its feasibility and its economic potency
15 in fighting the onset of a recession.

16 The Conduct of Business
17

18 16. It is in the field of corporation taxes that it
19 is particularly necessary to examine the effect of
20 taxation on the conduct of business. Under the heading
21 of conduct of business might be considered the effect of
22 taxation on the obtaining of additional capital by
23 corporations. Under Section 11(1)(c) of the Income Tax
24 Act, interest paid on borrowed money is treated as a
25 deduction for the purpose of computing income. On the
26 other hand, dividends which are paid to shareholders for
27 the use of their money are subject to taxation. It is
28 suggested that consideration might be given to the
29 question of whether this different treatment in respect
30 of the payment for the use of capital has a harmful effect



1 on the economy and whether it would be in the public
2 interest that the situation be improved by lowering the
3 corporation tax rates.

4 17. It is important to consider the effect of the
5 corporation income tax on the efficient operation of
6 business. The top federal corporation tax rate of 50
7 per cent, with the addition of 1 per cent or 2 per cent
8 on profits earned in certain provinces, is sometimes said
9 to encourage doubtful and perhaps unnecessary expendi-
10 tures by corporations and conversely to discourage
11 economy. The fact that the government in effect pays
12 50 to 52 per cent of additional expenditure while on the
13 other hand the company receives less than half of the
14 benefit from reduced expenditures, may well tend, under
15 some circumstances at least, toward an increased cost of
16 production, which must be reflected in the sale price of
17 goods. While under good management this tax encourage-
18 ment of increased costs is undoubtedly rigidly restrained,
19 this tendency of the tax cannot be overlooked. It would
20 be useful to know whether, and to what extent Canadian
21 corporation income taxes operate to increase costs of
22 production by discouraging the efficient conduct of
23 business.

24 18. Conversely it would be useful to know to what
25 extent corporation income taxes act as a restraining
26 factor on expansion of industry. Shareholders invest
27 money for the primary purpose of earning a return on their
28 investment and will invest only when the expected return
29 compares favourably with the risk and return available
30 from alternate uses for their money. Likewise, internally,



1 company management will invest in those projects where
2 return is best after weighing such factors as relative
3 risk. To the extent that corporation taxes siphon off
4 some 50 per cent of the profits of enterprise, the
5 incentive to invest in new or existing business may not
6 be commensurate with the risk involved. A comparison
7 of the tax laws in different countries could well point
8 out how Canadian corporation taxes are applying a brake
9 to the normal expansion of the economy.

10 Organization of Industry
11

12 19. The taxation of co-operatives is an example
13 of one field where taxation has important effects on the
14 organization of industry. The question of the taxation
15 of co-operatives received in 1945 the consideration of the
16 McDougall Royal Commission on Co-operatives. Since that
17 time there have been important changes in the competitive
18 position of co-operatives in Canada. We feel that it
19 would be in the public interest if your Committee were
20 to re-examine the whole question of the taxation of
21 co-operatives under present-day conditions.

22 20. One of the important aspects of the taxation of
23 co-operatives is the treatment of patronage dividends
24 which, under Section 75(1) of the Income Tax Act, may
25 be deducted in computing the taxable income of the co-
26 operative. The particular aspect which deserves attention
27 is the definition of payment contained in Section
28 75(4)(f) of the Income Tax Act, which permits the co-
29 operative, under certain circumstances, to retain all or
30 a substantial part of the patronage dividends, while at



1 the same time the patronage dividends are treated as
2 distributed for the purpose of taxation. This provision
3 appears to give the co-operative a competitive advantage
4 through the retention or accumulation of tax-free capital,
5 by means of which they have expanded into areas of manu-
6 facturing never contemplated in the original concept of
7 co-operatives. It is possible that without this tax
8 advantage in the raising of capital, the growth of co-
9 operatives in recent years would have been much slower.

10 21. Since the question of the taxation of co-
11 operatives is complicated and difficult in many respects,
12 and there is a wide-spread feeling that the tax laws
13 discriminate in favour of co-operatives, it is important
14 that your Commission should examine the matter. If there
15 is discrimination in favour of co-operatives, it is hoped
16 that your Commission will suggest measures to remove
17 unfairness, so that all taxpayers, whether co-operative
18 or corporate, are treated equally and impartially.

19 22. Under Section 62(1)(c) of the Act, a
20 corporation which is owned by a province or by a
21 municipality is exempt from income tax. In the dis-
22 cussions which culminated in the recent acquisition by
23 two of the Canadian provinces of privately-owned public
24 utilities, it was sometimes claimed that the province
25 stands to gain by acquiring these utilities, in that
26 after acquisition by the provincial government a share
27 of the profits does not go to the federal government in
28 the form of tax, but the provincial government retains
29 all the profits without payment of federal tax. If
30 this is the case, it would seem that the tax laws



1 provide encouragement for the provincial and municipal
2 operation of public utilities and other enterprises. It
3 is therefore recommended that your Commission should
4 study the matter, and if the taxation laws in fact
5 provide incentive for the provinces to acquire private
6 industries, a means should be devised to eliminate this
7 encouragement to the operation by government of enter-
8 prises which have hitherto been under private ownership.

9 23. With regard to the specific matters listed in
10 the terms of reference on which the Royal Commission is
11 directed to report, the Association respectfully submits
12 the following suggestions and recommendations.

13 (a) The distribution of burdens among taxpayers
14 resulting from existing rates of exemption, reliefs
15 and allowances provided in the personal and corpora-
16 tion income taxes, estate taxes and sales and excise
17 taxes, taking into account also the jurisdiction
18 and practices of the provinces and municipalities.

19 24. Under this heading we suggest that your
20 Commission should review the exemptions from personal and
21 corporation taxation which are contained in the Income
22 Tax Act and other legislation. While it is important that
23 taxation should not add to the cost of industrial pro-
24 duction, it is not in the public interest or equitable
25 that individuals or industries should be discriminated
26 against. There has been no comprehensive impartial
27 examination or evaluation of each of the exemptions and
28 deductions since the Income War Tax Act, the predecessor
29 of the present Income Tax Act, was passed in 1917.

30 25. A similar examination should be made of the



1 provision of the Excise Tax Act, which now provides a
2 revenue of over one billion dollars to the federal
3 government. Certain sections of the Excise Tax Act were
4 given special study by the Sales Tax Committee appointed
5 by the Canadian government in April, 1955. In its report
6 of January, 1956, this Sales Tax Committee made a number
7 of specific recommendations which have not been acted
8 upon but are said to be still under consideration. The
9 terms of reference of the Sales Tax Committee in 1955
10 were as follows:

- 11 1. "To examine the problem arising under sales and excise
12 taxes where manufacturers sell to customers at
13 different levels in the marketing process and to
14 make recommendations for a definition of a tax base
15 or statutory method of administrative practice
16 designed to equalize approximately the tax payable
17 on goods of like value.
- 18 2. To examine the question of appeals from taxes imposed
19 under the Excise Tax Act and make recommendations
20 with regard thereto.
- 21 3. To examine the problem arising under sales and excise
22 taxes with regard to the tax payable by importers of
23 goods and that payable by manufacturers in Canada of
24 goods of like value when sold to customers at
25 different levels in the marketing process and to make
26 recommendations with regard thereto.
- 27 4. To examine the system of exemptions for goods based
28 upon the use of such goods and recommend any changes
29 which may achieve greater simplicity and certainly
30 without substantial loss of revenue."



1 26. The Association is of the opinion that all of
2 the matters referred to above should be given further
3 study by the Royal Commission on Taxation. For example,
4 under the present provisions of the Excise Tax Act, sales
5 and excise taxes are levied on the "duty paid value" of
6 goods imported for resale. This "duty paid value" does
7 not include any sales, advertising or distribution
8 expenses incurred in Canada. Canadian manufacturers of
9 competing products, however, are required to pay sales and
10 excise taxes on their actual selling prices, which must
11 necessarily include their sales, advertising and distri-
12 bution expenses in Canada. Generally speaking, the "duty
13 paid value" represents the selling price at the distribu-
14 tor level of trade in the country of export plus any
15 Canadian duties which may be applicable. Under Excise Tax
16 Act Regulation 21, the administration has endeavoured to
17 give effect to the use of a wholesale price as a basis
18 for the calculation of sales and excise taxes on Canadian
19 manufactured products. There are many instances, however,
20 where Canadian manufacturers are still required to pay
21 sales and excise taxes on their actual sales prices to
22 dealers and consumers. It appears evident, therefore,
23 that the present provisions of the Excise Tax Act
24 discriminate against the Canadian manufacturer in favour
25 of the importer.

26 27. In the area of sales tax exemptions there are
27 many articles and materials used in factories which are
28 still subject to sales tax because they are not considered
29 to be used "directly" in the manufacturing processes.
30 On such articles and materials the manufacturer pays sales



1 tax at the time of purchase; and when he sells the
2 product of his manufacture and accounts for sales tax on
3 his sales price, he is in fact paying sales tax a second
4 time on these articles and materials as well as paying
5 tax upon tax. Because of this double incidence of sales
6 tax the sales position of the Canadian manufacturer becomes
7 that much less competitive in price against imported goods
8 in the domestic market as well as in foreign markets.
9 Examples of factory equipment which are now ruled as
10 taxable since they are not considered to be used "directly"
11 in the production of goods are as follows: fire protection
12 and fire fighting equipment, electrical lighting fixtures
13 and cable, air conditioning and ventilating systems, etc.
14 The question of double taxation is a matter to which we
15 trust the Commission will give careful consideration.
16 26. We also suggest that the Commission might find
17 merit in recommending the simplification of the present
18 provisions of the Excise Tax Act by confining its pro-
19 visions to general sales taxes. Certain commodities were
20 selected for additional taxation in the form of excise
21 taxes in 1947. When these were first imposed, the
22 Minister of Finance stated that the special excise taxes
23 were of a temporary nature and would be cancelled as soon
24 as conditions permitted. Their original purpose was to
25 discourage consumption, but the revenues obtained therefrom
26 have presumably been of such importance that the govern-
27 ment has not found it possible to repeal them. We
28 recommend that a study be made of each of the commodities
29 now subject to special excise taxes with a view to the
30 eventual removal of these taxes entirely.



1 29. With respect to the Estate Tax Act, we feel that
2 the exemptions should receive careful consideration. In
3 the study which we hope you will make on the combined
4 effect of income tax, estate taxes, and succession duties
5 on small family business, it is suggested that you should
6 consider whether an increase in the exemptions under the
7 Estate and Succession Duty Acts would not be helpful in
8 reducing the tendency to sell a family business in the
9 lifetime of the main owner, which is frequently done by
10 the owner in order to prevent the forced sale on his death
11 with consequent serious hardship to the beneficiaries
12 and sometimes to employees.

13 30. Under this heading also, we suggest that your
14 Commission should give careful study to the taxation rates
15 and practices of the provinces and municipalites. Some
16 of the provinces have, we feel, a tendency to tax corpora-
17 tions carrying on business in their jurisdictions in
18 preference to obtaining revenue from other sources. For
19 example, in Ontario in recent years provincial corporation
20 income tax reates have been two percentage points above
21 the federal abatement, whereas the total federal and
22 provincial income taxes in this province on individuals
23 has not been increased beyond the federal rate. In the
24 Province of Quebec under The Progress of Education Act
25 there is a levy on capital investment applicable to
26 specific industries. In many provinces too there are annual
27 registration fees application to corporations under
28 company and related acts, which are in fact a form of
29 taxation. This inclinication to look to corporations for
30 additional revenue may be indicative of a feeling by some



1 provincial governments that, while it is not politically
2 desirable to increase the tax on individuals, corporations
3 can recover the tax by increasing prices or in some
4 other manner.

5 31. When the Commission examines municipal taxation
6 it will find that industrial and commercial taxpayers in
7 some provinces have for many years paid a greater
8 proportionate share of municipal taxes than other types
9 of ratepayers. The main reason for this difference is
10 the widespread use of business taxes which are levied
11 against owners and tenants of industrial and commercial
12 properties in addition to ordinary property taxes.
13 Moreover, some municipalities in several provinces collect
14 from manufacturers municipal property taxes or school
15 taxes on machinery. Such taxes weigh heavily on manu-
16 facturers, who of necessity require the use of extensive
17 and costly machinery.

18 32. Recently this situation has been aggravated in
19 Ontario by the establishment of provincial grants to
20 municipalities, which discriminate in favour of residential
21 and farm property. The first of these was established
22 in 1957 when Unconditional Grants were paid to munici-
23 palities on condition that the annual levy against
24 residential and farm property owners be reduced by an
25 amount equal to the grant. In 1962 the Unconditional
26 Grant to Metropolitan Toronto resulted in a differential
27 of 3.7 mills between residential rates on the one hand
28 and industrial and commercial tax rates on the other.
29 This difference was further increased in 1961 with the
30 introduction of School Tax Assistance Grants which have



1 substantially the same effect as the Unconditional Grants.
2 In order to qualify for the School Tax Assistance Grant,
3 residential mill rates for schools must be reduced by
4 10 per cent below commercial and industrial rates. When
5 the first legislation was enacted, one reason given for
6 the discrimination against industrial and commercial
7 taxpayers was that since industry and business can deduct
8 municipal taxes for federal income tax purposes, the effect
9 of a greater share of municipal taxes on such taxpayers
10 is of small consequence. A secondary reason for the
11 discrimination was apparently the belief that industrial
12 and commercial property owners are able to recover the
13 cost of municipal taxes through increasing the price of
14 their goods.

15 33, In the Province of Quebec under the Cities and
16 Towns Act a property tax may be levied on immovable
17 property including land, buildings and immovable
18 machinery. A town council may by-law order that the
19 immovable machinery is not taxable in their municipality.
20 The municipality is also able to render irrevocably for
21 ten years by-laws making machinery (in specific cases)
22 non-taxable.

23 34. Under the Education Act of Quebec, the valua-
24 tion of property which has been made by order of the
25 municipal authorities, serves as the basis of the assess-
26 ment to be imposed by school corporations. The inclusion
27 or exclusion by municipal authorities of immovable
28 machinery, can result in completely inequitable taxation
29 for school purposes.

30 35. We suggest that in your examination of



1 provincial and municipal taxes, you should take into
2 account this tendency of provinces and municipalities
3 to discriminate against industrial and commercial tax-
4 payers in property taxes. This is a factor that adds
5 to the costs of industry and makes competition with
6 foreign goods more difficult.

7 (b) The effects of the tax system on employment,
8 living standards, savings and investment, industrial
9 productivity, economic stability and growth.

10 36. Your Commission, in its study of the effects of
11 the tax system on employment, living standards, savings
12 and investment, industrial productivity, and economic
13 stability and growth, will examine matters of the greatest
14 national importance. Economic studies carried out by
15 trained economists in these fields will undoubtedly be
16 of great value. In making this study of the effects of
17 the tax system as a whole, you will no doubt examine
18 the economic effects of the individual taxes, particularly
19 the corporation income tax, the personal income tax and
20 the federal sales tax.

21 37. One matter, to which we have already referred,
22 is the question of the proportion of revenue which should
23 be collected by the various taxes. It is important to
24 know whether the economy would benefit from an increase
25 in the proportion of revenue derived from federal sales
26 tax and a reduction in the proportion of revenue from
27 corporation income tax. At the present time 20.2 per
28 cent of the budgetary revenue of Canada is derived from
29 corporation income tax while only 14.1 per cent from the
30 federal sales tax. We feel that there is strong reason to



1 believe that corporation income taxes and other corpora-
2 tion taxes are particularly harmful to the economy as a
3 whole and impede economic growth.

4 38. The present system of personal income tax rates
5 also requires careful study. We feel that there are
6 sound reasons for the opinion that the present high rates
7 of personal income taxes, particularly in the middle and
8 higher brackets, discourage capital investment and economic
9 growth. Moreover, high individual tax rates undoubtedly
10 make it difficult to retain in Canada our highly skilled
11 citizens. By reducing take-home pay, high personal
12 income taxes also leading to greater demands for higher
13 wages, with consequent increases in the cost of
14 production.

15 39. The Commission will, in the Association's view,
16 have performed a most valuable public service if it
17 carries out comprehensive studies on the economic effect
18 of the present tax system.

19 (c) Provisions in existing laws which may have given
20 rise over the years to anomalies or inequities or
21 which may require action to close loopholes which
22 permit the use of devices to avoid fair taxation.

23 40. Under this heading we would direct your
24 attention to the anomaly and inequity which exists by
25 reason of the double taxation of corporate earnings. The
26 profits made by a corporation are taxable twice, first
27 as profits of the corporation and secondly when received
28 by the shareholder. While some relief is provided by
29 the dividend tax credit, much of the burden of the double
30 taxation remains. It is submitted that consideration



1 should be given to the definite inequity which exists
2 when profits of corporations are taxed twice, while
3 other forms of income received by an individual are taxed
4 only once. The effect of the double taxation of
5 manufacturers' profits on Canadian economic development
6 is, we feel, an appropriate subject for investigation
7 and consideration by the Commission.

8 41. While it is important for the Commission to
9 make a careful study of the other anomalies and inequities
10 in the various tax Acts and make recommendations for the
11 closing of loopholes, this is, generally speaking, not
12 a subject upon which we are in a position to make
13 specific proposals. We feel the Commission will on this
14 point receive much assistance from the accounting and
15 legal professions. We do, however, throughout the course
16 of our submission, refer incidentally to a number of
17 features of tax law which we regard as inequitable.
18 These inequities and anomalies have, in the Association's
19 opinion, been greatly aggravated and magnified by the
20 high rates of taxation. It is unfortunately true that
21 one result of high income tax rates may have been to
22 direct the attention of some of the best minds to devising
23 means of tax avoidance rather than to productive matters
24 more beneficial to the economy. At the same time those
25 who cannot afford to pay for expert advice may be
26 burdened with an undue share of taxes.

27 (d) The effects of the income, sales and excise taxes
28 and estate duties on income and investment flows
29 which affect the balance of international payments
30 and economic relations with other countries.



1 42. Since Canada depends and will depend for many years
2 on foreign investment, it is important to examine the
3 effects on the various taxes on income and investment
4 flows which affect the balance of international payments
5 and economic relations with other countries. The
6 Association feels that it is essential for investors in
7 other countries, particularly United States, to be
8 convinced that Canada provides a good climate for invest-
9 ment, and that the tax structure is not less favourable
10 to investment than that of their own countries.

11 43. Under this heading, we suggest that an examina-
12 tion should be made of the withholding taxes applicable
13 to non-residents. We would suggest that they should be
14 at levels which provide reasonable revenue and be
15 equitable in the light of taxation paid by Canadian
16 owners of businesses. They should, however, be kept well
17 below the level at which they will discourage investment
18 in Canada. Moreover, withholding taxes should under no
19 circumstances impose a penalty by being fixed at a level
20 above the foreign tax recovery available to the foreign
21 investor. In connection with the study of withholding
22 taxes, we suggest that a comparison and study be made of
23 the withholding taxes in effect in the chief European
24 industrial countries.

25 (3) The means whereby the tax laws can be best
26 formulated to encourage Canadian ownership of
27 Canadian industry without discouraging the flow
28 of investment funds into Canada.

29 44. The Association is pleased that your Commission
30 will be examining the means whereby tax laws can be



1 formulated to encourage Canadian ownership of industry
2 without discouraging the flow of investment funds into
3 Canada. We suggest for your consideration the desirability
4 of improvement in the tax credit for dividends established
5 under Section 38 of the Income Tax Act. We feel that
6 the dividend tax credit is in principle a useful
7 incentive for encouraging Canadian ownership of Canadian
8 industry. It is suggested that it would be more effective
9 in promoting Canadian ownership if it offered a greater
10 credit than 20 per cent in respect to dividends from
11 common shares which have voting rights. Such an increase
12 in dividend credits would reduce the double taxation
13 paid by many taxpayers who own shares of Canadian corpora-
14 tions and would provide a strong stimulus for the
15 encouragement of Canadian ownership and control of
16 commercial and industrial enterprises.

17 45. Alternatively, the elimination of this double
18 taxation on corporate earnings by a reduction or even
19 complete elimination of the corporate tax on earnings
20 distributed to the shareholders should be investigated
21 by your Commission. Many foreign countries in their
22 corporate tax rate structure distinguish between dis-
23 tributed income and that retained with the business.
24 The changing of the corporate tax on distributed income
25 requires extensive research and study, including investi-
26 gation into current claims that elimination of this tax
27 would improve the competitive position of Canada thus
28 increasing manufacturing and employment opportunities
29 with consequent improvement on living standards and the
30 advancement of the economy.



1 (f) Changes that may be made to achieve greater clarity,
2 simplicity, and effectiveness in the tax laws or
3 their administration.

4 46. Your consideration and reporting on the changes
5 which may be made to achieve greater clarity, simplicity,
6 and effectiveness in the tax laws or their administration
7 will undoubtedly be welcome to all taxpayers. In recent
8 years the Income Tax Act has become highly complex
9 and many of its provisions are difficult even for tax
10 lawyers and accountants to comprehend. Much of the
11 complexity is perhaps inevitable, and much is due to the
12 necessity of blocking loopholes for tax evasion. Other
13 complexities of the Act arise from the virtual elimination
14 of the former wide discretion of the Minister of National
15 Revenue, and the establishment of the legislation on a
16 strictly legal basis with a provision for appeal to the
17 Income Tax Appeal Board. Nevertheless, the Association
18 feels that an examination of the Act with a view to
19 bringing about greater simplicity and making it more
20 understandable, is most desirable.

21 47. An important matter for study and examination
22 is the feasibility of providing the taxpayer upon request
23 with interpretive rulings upon which he may rely in
24 respect to the tax effects of a course of action under
25 consideration.

26 48. To assist taxpayers in understanding the
27 complexities of the Income Tax Act, we suggest that
28 consideration should be given to the issuing to the
29 public of interpretive regulations such as we understand
30 are now to be found in the confidential assessors' guide,



1 which is prepared by the Income Tax Department for the
2 private use of its officers.

3 49. We feel also that a study should be made of
4 several proposals which have recently been put forward by
5 two professional organizations, designed to provide for
6 a more critical examination of tax measures before their
7 enactment by Parliament. The suggestion is that if
8 drafts of proposed legislation were made available to the
9 public before its introduction into Parliament and if it
10 received a more detailed examination before parliamentary
11 committees, many serious defects in tax legislation could
12 be prevented. While the proposed solution may perhaps
13 to some extent go beyond your terms of reference, we feel
14 that the suggestions merit your careful examination.

15 (3) Such other related matters as the Commission
16 considers pertinent or relevant to the specific
17 or general scope of the inquiry.

18 50. Under this final heading which authorizes your
19 Commission to consider and report on such related matters
20 as you consider pertinent or relevant to the inquiry, the
21 Association hopes that your Commission will give careful
22 consideration to provincial and municipal taxation.
23 Unless this is done the value of the economic studies and
24 recommendations will be gravely impaired, since it is
25 difficult to segregate the effects of provincial and
26 municipal taxation from federal taxation. If the Commission
27 examines all forms of taxation in Canada, and suggests
28 the remedies which should be effected, whether by federal,
29 provincial or municipal governments, we feel that the
30 value of its investigation will be greatly enhanced.



1 Corporation Income Taxes

2 51. Since the terms of reference of your Commission
3 refer for the most part to the tax structure as a whole,
4 it seems appropriate to deal separately with the corpora-
5 tion income tax and the federal sales tax which are the
6 two federal taxes which have the greatest effect on
7 manufacturers.

8 52. Although in referring to the terms of reference
9 of the Royal Commission we have already mentioned a number
10 of problems relating to specific taxes, there are other
11 matters in the field of corporation income, sales and
12 estate taxes, which we wish to bring to your attention.
13 Corporation income and sales taxes in particular weigh
14 heavily on manufacturing and are of special concern to
15 the Association.

16 53. The incidence and real effect of corporation
17 income tax requires special study and investigation
18 since, in the first place, there is some uncertainty as to
19 who bears the ultimate tax burden. It is possible that
20 under inflationary conditions with full employment, the
21 burden of the tax may be shifted, but it is doubtful
22 whether it can be done effectively in the presence of
23 idle capacity and vigorous foreign competition. If the
24 burden is shifted it may conceivably be borne by suppliers
25 who are paid less for materials and equipment, or it may
26 be borne by employees whose wages cannot be increased.
27 If, however, the tax is not shifted, it remains a tax on
28 corporate profits and falls upon the shareholder whose
29 investment made the enterprise possible. Reduced
30 profitability makes investment in the first less desirable;



1 hence the ultimate effect may be reduced national rate
2 of business investment, slower economic growth, and
3 small increases in living standards. It is therefore
4 suggested that a careful examination should be made of
5 the real effects of the corporation tax and their impact
6 on the nation as a whole. We would suggest also that
7 consideration should be given as to how harmful effects
8 may be eliminated and whether or not the whole economy
9 would not benefit from lower corporation tax rates.

10 54. In recent years there have been established a
11 number of important and complex tax incentives. While
12 these appear to have beneficial results, we suggest that
13 an important question for your consideration is whether
14 the general reduction of corporation taxes might not
15 provide a greater stimulus and incentive to the economy
16 than the program of special tax incentives.

17 55. It is desirable, however, that study should be
18 given to the results being achieved by the four principal
19 tax incentives now in effect. These consist of two forms
20 of accelerated depreciation known as additional allowances
21 in respect of new products and the allowance for equip-
22 ment and modernization, and also the recently-enacted
23 production incentive and the scientific research incentive.
24 The production incentive and particularly the scientific
25 research incentive are undoubtedly imaginative approaches
26 to the problem of encouraging increased production and of
27 promoting the carrying on of scientific research in
28 Canada. In the Association's view, they appear to have
29 much merit. We think, however, that these incentives
30 should be carefully examined to determine their precise



1 effects on the economy.

2 56. While export incentives have been suggested as
3 a means of encouraging needed exports of Canadian goods,
4 they appear to have serious disadvantages in that they
5 are likely to discriminate against the domestic manu-
6 facturer who must compete with foreign goods in the
7 Canadian market in much the same way as the exporter
8 competes with foreign goods in foreign markets. Never-
9 theless, we think it appropriate that your Commission
10 should give consideration to tax measures to encourage
11 the exporting of manufactured products, but which do you
12 unfairly discriminate against manufacturers who for
13 various reasons are not in a position to send their goods
14 abroad to compete in foreign markets.

15 57. Another matter which we would suggest for study
16 by your Commission is the present system of depreciation
17 allowances. While in some respects more generous
18 depreciation is little more than a tax-free loan, it
19 undoubtedly does tend to encourage new investment. It
20 appears to stimulate corporations to invest more, to
21 bring their equipment up-to-date by scrapping obsolescent
22 equipment sooner, and to expand and modernize so as
23 better to meet foreign competition and provide higher-
24 paid jobs. We would respectfully suggest that you might
25 with advantage examine the economic effect on the economy
26 of permitting industries to depreciate their plants and
27 equipment in whatever period of time they deem appropriate,
28 even during the year of acquisition. There is reasons to
29 think that complete freedom in regard to depreciation
30 would have definite beneficial effects on the economy in



1 stimulating the expansion of industry.

2 58. Another measure for encouraging economic growth
3 is the investment allowance, which has been used for
4 some years in Europe and appears to have been productive
5 of beneficial results. The investment allowance is
6 deducted from income tax in the year of acquisition and
7 is in addition to the depreciation allowances. There has
8 been for some years in Britain a 20 per cent investment
9 allowance with respect to capital expenditures on new
10 machinery and equipment, which in November, 1962, was
11 increased to 30 per cent. At the same time the 10 per
12 cent investment allowance with respect to capital
13 expenditures on new buildings was raised to 15 per cent.
14 In United States also, legislation was passed in 1962
15 to establish an investment credit of 7 per cent, which
16 operates as a cash rebate, being used to reduce the cost
17 of the equipment acquired.

18 59. It has been the Association's view for some
19 time that economic growth would be considerably encouraged
20 in Canada by the adoption of comparable investment
21 allowances. We suggest that your Commission should examine
22 the operation of investment allowances and credits in
23 European countries and the United States. We are con-
24 vinced that if such a study is made it will be evident
25 that Canada stands to gain from the adoption of investment
26 allowances.

27 60. We also suggest that your study of incentives
28 should include consideration of the value of an
29 "equalization reserve" deduction from income to be made
30 available to taxpayers whose principle business is



1 manufacturing or processing. We have in mind a per-
2 centage reserve deduction which would be returned to
3 income by the taxpayer except to the extent that the
4 amount of the reserve was invested by the taxpayer in
5 plant and machinery and inventory within five years after
6 the year of deduction. Such a measure, it is suggested,
7 would provide a strong incentive pressure upon manage-
8 ment of foreign parent corporations to divert expanding
9 productive capacity to their Canadian subsidiaries at the
10 expense of productive capacity outside Canada.

11 61. There are in the Income Tax Act many technical
12 provisions which will undoubtedly receive your attention.
13 The taxation of undistributed income has always been a
14 serious problem. In 1944 a Royal Commission under the
15 chairmanship of Mr. Justice Ives examined the taxation
16 of earned surpluses of private or closely-held corpora-
17 tions, which is an important aspect of the problem.
18 Since that time much legislation has been passed relating
19 to the taxation of undistributed income, which has
20 resulted in an increase in the complexity of the Income
21 Tax Act. We feel that, while the taxation of undistri-
22 buted income is a difficult problem, it may be possible
23 to arrive at a solution which will eliminate many of the
24 complicated features of the legislation and, at the same
25 time, provide needed encouragement to smaller companies.
26 Some relief appears particularly necessary for the owner
27 of a small business who, because of the combined effects
28 of income taxes and death duties, may find it necessary
29 to dispose of his business in his lifetime or face its
30 disappearance upon his death with great loss to the



1 beneficiaries.

2 Sales Taxes

3
4 62. In its January, 1956 report, the Sales Tax
5 Committee, which was appointed by the federal government,
6 recommended as follows:

7 "At some future date after suitable preparation
8 and explanation to taxpayers, the basis of
9 the tax be changed from the manufacturers'
10 level to the level at which retailers purchase
11 goods. This is the level used for sales tax
12 purposes in Australia. It follows that the
13 broader base will produce increased revenues
14 at the same rate. To obtain the same revenues
15 the rates of sales and excise tax may be reduced
16 equivalent to the average wholesaler's mark-up
17 and this recommendation is made conditionally
18 upon such a reduction."

19 The Sales Tax Committee made some significant comments
20 in its report on the effect which this recommendation
21 might have on the Canadian economy as a whole. Also to
22 be considered is the fact that eight out of the ten
23 Canadian provinces now impose provincial retail sales
24 taxes which are levied on the price at which the consumer
25 purchases his goods from the retailer, the retailer merely
26 acting as a tax collecting agent of the provincial
27 government. It would seem desirable, therefore, that the
28 Commission not only give consideration to this particular
29 recommendation (No. 11) in the Sales Tax Committee report,
30 but also study the desirability of replacing the present



1 manufacturers' sales tax and the provincial retail sales
2 taxes with one national sales tax which would be imposed
3 by the federal government at the level at which retailers
4 purchase goods, with appropriate compensation being made
5 to each province on an equitable basis, such as that of
6 population. This would have the advantage of making the
7 retail sales tax levy uniform for all consumers regardless
8 of the province in which they reside, While the proposal
9 has far-reaching implications, involving as it does
10 federal-provincial relations, it is, in the Association's
11 view, an appropriate matter for study and investigation
12 by the Commission.

13 63. In this connection, it is suggested that the
14 Commission might well give consideration to other forms
15 of commodity taxes which are presently employed by other
16 countries. In Europe, for example, there is a wide-
17 spread use of turnover taxes. One form of these taxes,
18 known as "tax on added value", which is presently in
19 effect in France, has some resemblance to the Canadian
20 federal sales tax and is considered by some authorities
21 to have definite advantages in distributing the burden
22 of tax more equitably and discouraging tax evasion. It
23 is suggested that a study might well be made of the
24 operation and effects of this form of commodity tax.

25 Estate Tax Act
26

27 64. The Estate Tax Act and the Succession Duty
28 Acts have serious effects particularly on the operation
29 of small and privately-owned businesses. One of the most
30 important of these effects relates to the provision of



1 money to pay death duties.

2 65. In the case of taxes on production or consumption,
3 such as corporation, income or sales taxes, the tax
4 base either consists of, or is closely associated with a
5 flow of actual cash money, so that the means of paying
6 the tax is almost always present. Since succession and
7 estate taxes are a form of capital levy, the tax base
8 has no such concomitant monetary association. On the
9 contrary, this base may consist chiefly of such non-
10 liquid assets as potentially valuable but presently
11 unsaleable real estate, or ownership of a small privately-
12 owned company whose shares have no market.

13 66. The rigid application on the death of an
14 owner of such capital levies which presumes a liquidity
15 of assets which does not always exist, would seem to
16 constitute one of the inequities in our present taxation
17 system. It is particularly serious in the event of
18 untimely death, when a forced sale may be possible only
19 at a considerable sacrifice in price. Moreover, any one
20 of several consequences may ensue which can adversely
21 affect in some degree the national economy.

22 67. The sale of a private company, either in
23 anticipation of or after the death of the chief owner,
24 if made domestically, often has a detrimental effect on
25 its operation within Canada. If the sale is made to a
26 non-resident, it is a further instances of the transfers
27 of Canadian industry to foreign ownership, which have
28 been prevalent in Canada for some years. Such foreign
29 "take-over bids" are generally regarded as one of the
30 least beneficial forms of capital import.



1 68. If the owner of such a company makes in his
2 lifetime prudent provision for such a contingency by way
3 of heavy life insurance, this results in one more item
4 being added to his cost of production in a period when
5 it is vital that Canadian production costs be reduced,
6 not increased. If these alternatives which face small
7 businesses have the effect of discouraging the launching
8 of enterprises, Canada will be deprived of just that much
9 economic growth.

10 69. Various measures for relief have from time to
11 time been proposed, such as permitting the payment of
12 estate tax and succession duties in kind, the extension
13 of time for payment of tax, and the issuing of some form
14 of long-term mortgage security. It is suggested that
15 the Commission should give careful consideration to the
16 problem which, although a difficult one, is important and
17 serious in its effects on the economy.

18 70. In conclusion, the Association would like to
19 express its appreciation to the Commission for this
20 opportunity of presenting its comments on the terms of
21 reference and its views on the matters which we feel
22 should be investigated by the Commission and its research
23 staff. In bringing these subjects to your attention, we
24 would like to emphasize that our suggesting the carrying
25 on of research or study on any subject should not be
26 taken to imply the Association's advocacy of any
27 particular tax changes. The Association proposes, however,
28 to present to the Royal Commission later this year a
29 submission containing its definite recommendations on
30 taxation matters affecting the manufacturing industry.



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TORONTO, CANADA

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5 SOME PROBLEMS OF TAXATION IN CANADA
6

7 A Preliminary Brief to the
8 Royal Commission on Taxation
9

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13 by
14 DAVID W. SLATER
15 April, 1963
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SOME PROBLEMS OF TAXATION IN CANADA

A Preliminary Brief to the
Royal Commission on Taxation

by

David W. Slater

April, 1963

It is my understanding that the first set of public hearings of the Commission are exploratory; that the main concerns at this time are to search for the right questions to guide the inquiry, for some implications of the way in which these questions might be answered, and for preliminary answers to some questions. This brief is entirely based on this understanding. It is a privilege and a pleasure for me to participate in these hearings. As many of you know I am associated in a limited capacity with a modest-sized programme of Taxation Studies at Queen's University. While my remarks have been influenced by this association, I take complete personal responsibility for them.

Your inquiry is directed to "the incidence and effect of taxation imposed by Parliament". While your responsibility is therefore mainly confined to Federal taxation, I believe that it will be useful at this stage of your inquiry to think about the problems more broadly. Some aspects of taxation can only be considered effectively in relation to the overall programme of government activities. In some respects changes in taxation and in other elements of public policy are alternatives. Some features of the problems in public finance in Canada can only be explored



effectively by including consideration of provincial and municipal finance. In this brief, therefore, I have not confined myself strictly to Federal taxation.

1. SOME GENERAL COMMENTS ON THE CANADIAN ECONOMY AND TAXATION POLICY.

For a number of years now, Canada's economic experience has been widely regarded as unsatisfactory. Levels of unemployment of labour and productive facilities have been excessive. The trends of potential and realized economic growth have been small. Doubts have arisen regarding the viability of Canada's current position in the world economy and Canada's balance of international payments. Given the opportunities now envisaged and the existing institutional arrangements and economic policies, many persons have expressed doubts about a better Canadian economic experience arising during the next few years. In all of these respects Canadian economic experience and discussions parallel quite closely similar experience and discussions in the United States.

The unsatisfactory economic performance has directed attention to government expenditures and taxation in Canada, as well as to other institutional arrangements and policies. To some people, the levels and structure of Canadian taxation are one proximate cause of the unsatisfactory economic performance. To other people, alterations in the levels and structure of Canadian taxation offer opportunities to improve Canada's economic performance. The debates in Canada over tax policy as a cause of economic difficulties or as a (partial) remedy



1 for economic problems are quite similar to recent and
2 contemporary taxation debates in the United States. Of
3 course, there are distinctive elements to Canada's
4 economic circumstances and problems, and in Canada's
5 taxation system; but it is useful at the outset to recall
6 the broad similarities in economic problems, institutions,
7 policies and prospects of Canada and the United States.

8 One of the most pervasive and persistent ideas
9 of recent years is that Canadians have been "living beyond
10 their means". The idea takes many forms, just as Hercule
11 Poirot assumes an almost infinite set of disguises in
12 Agatha Christie's mystery novels. Many of Canada's
13 problems are "explained" by this phrase or paraphrases
14 thereof. One version is that Canadians have encouraged or
15 acquiesced in a huge expansion of government expenditures
16 and transfer payments; that high tax rates have been
17 required by the increasing levels of government
18 expenditures; and that the high rates of taxation have
19 placed an increasingly severe drag on economic growth and
20 efficiency. A closely related notion is that government
21 expenditures have increased so rapidly that huge deficits
22 in the public accounts have arisen despite the high tax
23 rates; and that these government deficits imply Balance
24 of Payments deficits or inflation or both. Still another
25 version of the general idea is that the budgetary
26 operations and loans and borrowing policies by senior
27 levels of government have encouraged the private sectors
28 of the Canadian economy and junior governments to live
29 beyond their means, to aspire to standards of living that
30 are beyond the real income of Canada in current and



1 prospective economic circumstances. One implication which
2 is often drawn from these themes about "living beyond our
3 means" is the requirement of a large persistent dose of
4 austerity in government expenditures as a condition for
5 tax cuts.

6 The Commission may be able to avoid taking a
7 position on these issues. They may limit their function
8 to indicating the best structure and levels of taxation
9 to raise various assumed levels of revenue, for various
10 hypothetical programmes of government expenditure. I hope
11 that the Commission will not sidestep the issue in this
12 way, because of much of the allegation about Canadians
13 living beyond their means, through government operations
14 and in other ways, is, in my opinion, meaningless
15 jingoism.

16 It has been popular in North America in recent
17 years to impute much of the "blame" for the slower rate
18 of economic growth during the last five to eight years to
19 the high levels and to the structure of taxation. The
20 1961 recommendations of the Committee for Economic
21 Development (in their publication Economic Growth and
22 Taxation) illustrates this point of view. The President's
23 proposals for tax reductions and reform also reflect this
24 view.

25 Arguments that the level and structure of
26 taxation have been major factors in limiting recent
27 economic growth are more easily understood in the context
28 of the United States economy than for the Canadian economy,
29 as the internal determinants of economic growth are
30 relatively more important in the United States. There are



1 some difficulties with these arguments, however. The
2 levels and structure of taxation have not been significantly
3 different in the United States since 1957 from what they
4 were in the decade before that year. Yet economic growth
5 has been generally regarded as more satisfactory before
6 1957 than after. How, then, could the tax system be held
7 responsible for the slowdown? Or, to make one other
8 comparison: The whole postwar experience of economic
9 growth in the United States appears to be at least as
10 good as the experience of the 1920's. Yet levels of
11 taxation were much higher after the Second than after the
12 First World War.

13 It may be possible to reconcile the theory that
14 taxation has been a major drag on recent economic growth
15 in the United States with the observation of high growth
16 rates and high taxes in the first post-war decade, in a
17 number of ways. It is quite clear that the more
18 thoughtful exponents of tax cuts in the United States have
19 attempted to make such reconciliations. For example, it
20 can be argued that the restraints on growth exercised by
21 the system and levels of taxation in the United States
22 were more than offset from some time after the war by
23 forces favourable to growth, many of which were temporary
24 phenomena. Postwar inflation, the opportunities for
25 investment that arose from the backlogs of requirements
26 for real capital goods, the accumulated opportunities for
27 profitable investment which arose from the war-time
28 technological advances, the backlog of consumer demand and
29 high levels of liquid asset holdings by the individuals,
30 the limited competition from Western Europe and Japan



1 during most of the postwar decade of reconstruction--all
2 of these can be pointed to as forces or circumstances
3 that tended to stimulate economic growth in the United
4 States in the first postwar decade. The argument may be
5 that the drag on growth from the tax system was masked
6 or hidden by these other forces; and that the mask was
7 only gradually removed in the middle and later 1950's, so
8 that the inhibiting effects of taxation on economic growth
9 have only been seen clearly in recent years. This is a
10 plausible argument, but by no means a completely satis-
11 factory one. Alternating periods of excess capacity and
12 of deficiencies in the stock of real capital goods have
13 arisen in the past when different levels and structure of
14 taxation were operative. As the current excess capacity
15 is worked off, new investment opportunities will develop,
16 and investment spending will increase even if no changes
17 in tax levels and systems are introduced. Part of the
18 slowdown in economic growth in the United States in recent
19 years can be explained by demographic factors. Swings in
20 the demographic cycle will also operate to increase
21 investment and economic growth in the future, even if no
22 changes in tax levels and systems are introduced. As one
23 of the leading United States authorities on economic
24 growth has put it recently, in reviewing Dennison's new
25 book:

26 We are, indeed, just at the beginning of serious
27 work on the subject of economic growth in the
28 United States.....There is, in fact, almost
29 everything yet to be done...." (Moses Ambramovitz,
30 "Economic Growth in the United States", American



1 Economic Review , September, 1962, pp. 781-2;
2 a review article on E. F. Dennison, The Sources
3 of Economic Growth in the United States and the
4 Alternatives Before Us (New York: The Committee
5 for Economic Development, 1962).).

6 The idea that the Canadian levels and system of
7 taxation explain the slow growth in the Canadian economy
8 in recent years is even more difficult to accept than the
9 comparable line in the United States. Generally speaking,
10 the influence of internal determinants of economic growth
11 (of which tax systems constitutes one set) are smaller
12 for Canada than for the United States. The most that can
13 be argued is that Canada could have had a slightly better
14 economic performance in growth during the past five to
15 eight years with a different set of levels and structures
16 of taxation; or that marginal differences could be made
17 to the future growth performance by changes in the tax
18 systems or rates. Such conclusions would be important but
19 not sufficient explanation of Canada's performance.

20 In Canada, much the same sort of problem arises
21 as in the United States in explaining recent economic
22 stagnation by reference to the tax system. Admittedly there
23 have been some changes in government operations and the
24 level and structure of the tax burden in Canada in recent
25 years, as compared with the early 1950's, but the levels
26 and structure of taxation are not fundamentally different.
27 Canadian growth experience was generally regarded as very
28 good in the early 1950's, and progressively less good
29 since 1954 (though the situation was masked for a time by
30 the investment boom in the mid-1950's). But if the growth



1 experience was quite different, while the tax system was
2 not, how can the tax system be blamed for the slowdown in
3 growth? Much the same kind of argument about a delayed
4 impact of taxes on economic growth can be put in place
5 in Canada as in the United States; but does the argument
6 really hold up?

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2. CANADA'S ECONOMIC CIRCUMSTANCES AND PROSPECTS

Nearsightedness seems to be an occupational hazard of those who diagnose and prescribe for a nation's economic ills. With very few exceptions, Canada's Royal Commissions on economic affairs have been excessively influenced by the circumstances that existed at the time of their inquiries. It is not part of my intention to analyze here or to forecast Canada's economic conditions. But I would like to offer a few suggestions about such inquiries that might assist the Commission to avoid myopia in its work.

Will the Commission be forced into a careful analysis of Canada's economic conditions and prospects? I don't see how some such exercise can be avoided. An understanding of the nature of Canada's recent economic experience is required in order to reach conclusions about tax policy as a cause or a potential corrective for Canadian economic problems. The size and nature of government requirements in the future will depend on the experience of economic growth and fluctuations; and so will the elements of the tax base. Any view about changes in rates of taxation depends on general predictions about economic growth and fluctuations and the general structure of the economy. The adequacy of taxation policy as an instrument of economic stabilization depends on general predictions about the stabilization tasks which will be required. I am not arguing that the Commission should concentrate its efforts on the writing or rewriting of recent economic history or the forecasting of economic activity; but some attention to these matters will be required.



1 In the analytical and forecasting work of the
2 Commission, I believe that it is extremely important that
3 attention be devoted not only to long-run trends, but also
4 to structural changes and the fluctuations in economic
5 activity. Moreover, I am becoming increasingly convinced
6 that distinctions should be made within the analysis
7 between kinds of fluctuations that differ substantially
8 in nature, or degree and duration. My position could be
9 argued in many ways, but three points may be sufficient
10 to carry conviction. First, your own terms of reference
11 reflect the Keynesian revolution, for you are directed to
12 consider and report on "economic stability and growth".
13 Therefore, you must come to many judgments about the
14 interrelationships between taxation and economic stability
15 on the one hand and taxation and economic growth on the
16 other hand; and this implies that you must understand the
17 past record of economic stability and of growth in Canada.
18 Second, students of economic fluctuations and authorities
19 on economic policy are finding it increasingly attractive
20 to make distinctions between kinds of economic fluctuations.
21 Some classify business cycles as major and minor; others
22 distinguish between business cycles as one class of
23 fluctuation and some kind of long cycle as another class,
24 with the business cycles being distinguishable from long
25 cycles which are in turn distinguished from long-run
26 trends. Still other economists prefer to think about
27 economic growth as a process of varying long-run trends
28 due to the arrangements inherent in economic systems as
29 well as to intermittent major external shocks. There is
30 by no means a consensus on classifications or causes or



1 details, but there is a rather general agreement that a
2 two-fold classification of economic developments into
3 trends and business cycles is neither satisfactory for
4 analysis, nor an adequate guide to public policy. For
5 example, built-in-stabilizers in fiscal and monetary policy
6 may be all that we can or should attempt to limit minor
7 business cycles. Many economists take such a position.
8 But most economists would not accept the adequacy of such
9 a policy for (what they would variously identify as)
10 major business cycle recessions, or the recession phases
11 of long cycles in general economic activity or for
12 external periods of slower economic growth. Thirdly, you
13 will have to make up your minds about the incidence and
14 forms of "structural disturbances" and "structural
15 maladjustments" and then implications for tax policy which
16 the Canadian economy has experienced recently and may
17 experience in the next decade. During the last two or
18 three years Canadians have been deluged by tales about
19 structural maladjustments in the Canadian economy. One
20 version emphasized maladjustments between the structure
21 of production in Canada and the market opportunities which
22 have emerged. Another version placed special emphasis on
23 the development of major discrepancies between the kinds
24 of labour service now demanded and the kinds of labour
25 service available due to changes in technology and in the
26 structure of demand for goods and services. The super-
27 ficially most persuasive statistic in the latter connection
28 has been the high incidence of unemployment in recent
29 years among young males who have little formal education.

30 If you think that much of the unemployment in



1 Canada in recent years is due to structural maladjustments
2 rather than deficiencies of aggregate demand, you will be
3 driven to giving much emphasis to the correction of
4 structural maladjustments as an object of tax policy. If
5 you treat structural maladjustments as a minor part of
6 the story, then you will be driven to a quite different
7 emphasis in tax policy. You will recall that the Senate
8 Manpower Committee of nearly two years ago placed
9 considerable emphasis on structural maladjustments as part
10 of Canada's contemporary problem, and recommended various
11 special purpose tax measures to stimulate research and
12 the development of secondary industry. At about the same
13 time, a study prepared for the Joint Economic Committee
14 of the United States Congress came out rather strongly on
15 the opposite side of this issue. I don't propose to try
16 to settle the issue here, but I want to suggest that you
17 will have to take a position on the issue for purposes of
18 tax policy.



3. THE INCIDENCE OF TAXATION IN CANADA

The Importance of Such Studies

Your inquiry is directed in part of the "incidence ...of taxation imposed by Parliament". You have received specific direction to consider and report on:

"(a) the distribution of burdens among taxpayers resulting from existing rates of exemptions, reliefs and allowances provided in the personal and corporation income taxes, estate taxes and sales and excise taxes, taking into account also the jurisdictions and practices of the provinces and municipalities;"

As I understand the subject, studies of incidence of taxation are required because the point at which a tax is imposed is often different from that at which the burden falls; and because the effects and burdens of taxation may turn out to be somewhat different than had been expected or intended.

Incidence is an important inquiry no matter what general approach to taxation is accepted. If taxation according to "ability to pay" is advocated, then to apply such a system the distribution of "ability" and of "burdens" must be determined. If, for all or some government activities, a "benefit theory of taxation" is advocated, the problem still exists of determining the distribution of burdens and benefits, that is, the incidence of each. People are concerned with the fairness or equity of governmental taxation and other activities and a government must be able to convince the electorate of the equity of



1 the tax policy. While equity is ultimately an ethical
2 and political matter, the facts of incidence are required
3 so that people may form realistic and responsible
4 judgments.

5 The central empirical questions in studies of
6 incidence of taxation are: who says what for the opera-
7 tions of Canadian governments? How and why have the levels
8 and distribution of burdens changed? I believe that
9 another set of questions are about equally important
10 nowadays. Who gets what from the operations of Canadian
11 governments? How and why have the level and distribution
12 of benefits changed? How are benefits and burdens
13 related? I have no expertness regarding studies in
14 incidence of taxation, but I can offer a few suggestions
15 that may be of some help in your inquiry. I recognize the
16 enormous difficulty, indeed the impossibility, of
17 obtaining completely satisfactory answers to the questions
18 posed above. But the incidence of government taxation and
19 expenditures are fields of inquiry in which half the
20 truth would be better than one-quarter. In my judgment,
21 most Canadians do not have a realistic notion of what
22 they pay to and what they get from governments, nor of
23 what other people pay and get. One of the greatest
24 contributions that the Commission can make is toward an
25 improvement in our understanding of the trends in
26 incidence of government operations.

27 Some Background on Incidence Studies

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29 Most of the better-known studies of incidence
30 of governmental operations (or of the incidence of changes



1 in governmental operations) have been confined to taxation.
2 It has been easier to allocate taxation among persons
3 than to allocate the "benefits" of government expenditures
4 and other activities. Within certain limits, I believe
5 that more work can and should now be done on the incidence
6 of "government expenditures". This will be argued below,
7 for such bearing as it may have on your inquiry, but my
8 remarks will be mainly concerned with the incidence of
9 taxation.

10 The older studies of tax incidence have been
11 partial and abstract, concerned with the effect of a
12 particular tax change on particular groups. More recently,
13 a great deal of attention has been devoted to efforts to
14 measure the incidence of the overall tax structure. These
15 exercises in measurement have built on the partial and
16 abstract treatments of incidence, but they have attempted
17 to move beyond them. The best known of the recent
18 American studies are those by Musgrave, (Richard A.
19 Musgrave, "The Incidence of the Tax Structure and Its
20 Effects on Consumption", United States Congress, Joint
21 Economic Committee, Federal Tax Policy for Growth and
22 Stability, Nov., 1955, pp. 96-113. References to earlier
23 work by Musgrave and his associates are included in this
24 paper.) in which the taxation revenue raised by govern-
25 ments in the United States has been allocated among
26 individuals grouped into income classes. The Canadian
27 Tax Foundation has recently published a similar study for
28 Canada, written by Professor Irving Goffman. (Irving Jay
29 Goffman, The Burden of Canadian Taxation, (Toronto: The
30 Canadian Tax Foundation, 1962). It is on these studies



1 that I base my comments.

2 In Musgrave's 1955 study all taxes (with and
3 without social-insurance contribution) and all income (two
4 concepts) are allocated to six closed-end and one open-end
5 income classes. Major problems of principle did not arise
6 with respect to those taxes which are levied more or less
7 directly on persons, such as personal income tax, estate
8 and gift tax, property taxes on owner-occupied housing,
9 (and, if included, social-insurance contributions).
10 Excises, customs and sales taxes are assumed to be shifted
11 to consumers and the only problem under this postulate is
12 to make the statistical allocations of these taxes
13 according to expenditure patterns of persons in various
14 income classes.

15 Musgrave's treatment of the corporate profits
16 tax is a controversial item. He assumes "that two-thirds
17 of the corporation tax is borne by the shareholder' while
18 one-third is passed on to the consumer. Thus one-third
19 of the corporation tax is in fact a sales tax, with a
20 correspondingly heavier burden on the lower income groups".
21 (Ibid., p. 100) He adds in a footnote the following
22 comment:

23 Also, there is a distinct possibility that
24 part of the tax will be reflected in the wage
25 bargain. The distributional implications of
26 such "backward" shifting are more or less similar
27 to those of "forward" shifting to the consumer.
28 Thus the result would be changed but slightly if
29 part of the one-third was shifted backward.
30 For property taxes, Musgrave's assumption is:



1 ...The general principle, in estimating the
2 incidence of this tax is what the part assessed
3 on owner-occupied residences rests on the owner,
4 the part assessed on the improvement component
5 in business property (including rental housing)
6 rests on the consumer, and the part assessed on
7 the rent component of business property rests
8 on the owner....

9 Goffman's study follows essentially the same assumption
10 as Musgrave's, except in some details. •

11 In a few studies attempts have been made to
12 estimate the incidence of government expenditures (or of
13 some government expenditures or of some elements of changes
14 in government expenditures from one time to another). In
15 still fewer studies have attempts been made to relate the
16 incidence of government expenditures and taxation (or
17 changes in elements of each). How can the benefits of
18 expenditures for the preservation of law and order, defense,
19 public information services and sewage disposal (for
20 example) be allocated among persons or families? The
21 answer is, that they cannot be. But there are elements of
22 government expenditure which can be so allocated; for
23 example, family allowance, old age pensions, some
24 governmental health programmes, some road expenditures,
25 and some educational expenditures. And the portions of
26 total government expenditures for which meaningful state-
27 ments may be made about incidence are increasing.

28 Income redistribution and benefit approaches to
29 taxation have been the main interests which have driven
30 research workers to tackle partial studies of the incidence



1 of government expenditure programmes and of the relation-
2 ship of these to the incidence of taxation. Carter in a
3 study of the United Kingdom tried to consider both the
4 expenditure and taxation elements of the Labour government
5 in policies as elements influencing the income distribution.

6 Some Suggestions Regarding Incidence Studies of the Commission
7

8 In my judgment, it is desirable and feasible
9 for the Commission to carry out somewhat refined studies
10 of the incidence of taxation. The problem is to estimate
11 Who Pays Canada's Taxes. Most of the recent aggregative
12 studies of incidence have been limited to allocating taxes
13 among income classes. This is not good enough. Persons
14 or families which fall into a particular income class
15 differ in a number of respects which greatly influences
16 their tax burdens, for example, as regards age, family
17 characteristics, and form of income. To make studies of
18 the incidence of taxation more effective, the tax burdens
19 ought to be classified by these sorts of attributes as
20 well as by income. Some significant steps toward such
21 analysis should be possible from the data that has been
22 gathered in recent years by the Dominion Bureau of
23 Statistics (including the data gathered in the 1961 Census
24 of Canada) and by the Department of National Revenue.

25 I also believe that a substantial part of the
26 benefits of government expenditures could now be allocated
27 among persons (or families) classified by income and other
28 attributes. Moreover, such a study is highly desirable if
29 studies of the incidence of taxation are not to be mis-
30 leading. By comparing the incidence of taxation and the



1 incidence of those elements of expenditures for which
2 estimates can be prepared, a sort of net burden of taxa-
3 tion could be estimated.

4 Ideally, the Commission should try to form some
5 judgment about the changes in incidence of taxation (and
6 perhaps of some elements of expenditures) during the last
7 twenty years. I have the impression that the tax structure
8 in Canada became substantially more progressive with the
9 higher levels of government expenditures during and
10 following the second world war; but also that the tax
11 structure in Canada is less progressive now than it was
12 ten years ago. I am not here arguing a particular normative
13 position. I suggest, however, that the Commission ought
14 to try to find out the facts about trends in the incidence
15 of taxation in Canada. Also the Commission should attempt
16 to form a judgment as to whether the trends in the
17 incidence of Canadian taxation have been reinforced or
18 offset by changes in those benefits from government
19 expenditures which can be earmarked to classes of persons
20 or families.

21 One of the crucial judgments required for
22 studies of the incidence of Canadian taxation concerns the
23 incidence of the corporation income tax. At the last
24 conference of the Canadian Tax Foundation two leading
25 figures in current tax debates in Canada took very
26 divergent views on this question (though the ground was
27 shifted frequently in the course of the debate). Mr.
28 Eaton treated the corporate income tax almost essentially
29 as equivalent to a sales tax, while Mr. Capon generally
30 speaking treated the incidence as falling on shareholders.



1 The Musgrave and Goffman assumptions differ from both
2 of these positions.

3 Arnold Harberger's recent article in the Journal
4 of Political Economy is the most helpful guide to
5 resolution of this debate. It demonstrates that the
6 conceptual framework within which the incidence of the
7 corporation tax has usually been considered has been
8 inadequate. It is quite clear from this and other studies
9 that the experience of individual corporations does not
10 permit a satisfactory conclusion regarding the incidence
11 of the corporation tax.

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4. ECONOMIC GROWTH AND EFFICIENCY

The Problem:

The terms of reference require you to consider and report upon: "(b) the effects of the tax system on...living standards, savings and investment, industrial productivity, economic...growth;". The objects of such an inquiry are economic growth in general, and various aspects of economic efficiency and growth. These are huge and complex subjects about which we understand very little; thus my counsel to you regarding these topics is modesty for your own claims and extreme skepticism of dogmatic statements from others. In what follows my object is exposition of some of the current ideas (and uncertainties) about determinants and policies of economic growth and efficiency.

Concepts

What is meant by economic growth? - by economic efficiency? How are they measured? What are the principal inadequacies of these measures? Economic growth is usually taken to mean an increase in the potential gross or net output in total and per person over an extended period of time. This conception requires some comment. First, many activities and efforts are not counted among the gross or net output, because of difficulties of measurement or doubts that they are the objects of an economic calculus. Thus economic growth refers to only a fraction of human concerns; economic growth and human improvement of welfare are not necessarily positively correlated. Second, is national power or individual



1 welfare the object of economic activity? Is the individual
2 taken to be the best judge of what is good for him? In
3 most discussions of economic growth a crude compromise is
4 adopted in answer to these questions, for efforts devoted
5 to national power and individual welfare are both included
6 in economic growth on roughly the same terms; and items
7 provided by the state are assumed to be worth what they
8 cost. Third, economic growth refers to potential rather
9 than realized output, and realizations can fall short of
10 potentials as in a business cycle recession. A business
11 cycle recovery may influence economic growth, but it is not
12 in itself economic growth. Discussions of economic
13 growth are only meaningful when they refer to extended
14 periods of time, certainly more than one year and usually,
15 more than the time-span of a whole business cycle. Fourth,
16 while net output is in principle the better measure of
17 economic growth, it is more difficult to reckon than
18 gross output. Since net and gross output (in the potential
19 sense) are strongly positively correlated, trends in gross
20 output can be taken as a satisfactory indicator of trends
21 in net output. Fifth, for the industrialized countries
22 of the world, economic growth is taken to mean growth in
23 numbers of people and the stock of real capital and
24 increases in the output per person or per worker. While
25 it is possible that aggregate economic growth might be
26 attributable only to growth in inputs (with no increase
27 in output per unit of input) or growth in output per
28 unit of input (with no growth in inputs), in the western
29 world aggregate economic growth has reflected both
30 forces. This is the only context which is relevant to the



1 work of the Commission. Sixth, economic efficiency is
2 closely related to economic growth in the sense here
3 described, for economic efficiency refers to obtaining
4 more outputs of the types which are most highly valued
5 from given inputs.

6 Economic growth and improvements in economic
7 efficiency are measured through the use of the gross (or
8 net) national (or domestic) product in real terms, in
9 total (and per person or worker). All of the comments in
10 the preceding paragraph apply to these measures. Further,
11 it is now clear that the measures which are commonly used
12 do not capture effectively some improvements in economic
13 efficiency.

14 Determinants of Economic Growth and Efficiency:

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16 Regarding the proximate determinants of
17 aggregate economic growth, there exists a fairly general
18 agreement about the kinds of forces that should be
19 considered. But there are enormous differences of judgment
20 about the explanatory weight that can be attached to each
21 category of proximate determinant; and even greater
22 differences of judgment about the responsiveness of the
23 various determinants to changes in public policy. The
24 most useful thing which I can do for you in this connection
25 is to suggest a few items which you should all read, and
26 a few others for which you ought to read a critical precis
27 to be prepared by your staff. For reading I would suggest:
28 E.F. DENNISON, The Sources of Economic Growth in the United
29 States (New York: The Committee for Econ-
30 omic Development, 1962);



M. ABRAMOVITZ, "Economic Growth in the United States",
American Economic Review, LII (September,
1962), pp. 762-782; (a review on Dennison's
book);

J.W. KNOWLES, "Potential Growth in the United States",
Joint Economic Committee (of the United
States Congress), 1960.

From precis, I would suggest that you acquaint yourself
with the ideas of S. S. Kuznets, R. M. Solow, and T. W.
Schultz.

The general ideas on the subject of economic
growth should be considered before examining particular
applications to Canada. Studies of variations in
Canadian economic growth have usually given emphasis to
the development of export supplies and markets,
particularly in the latter. While this is useful as a
starting point for analysis, you have to press beyond
these bounds, for the growth of export markets is itself
something to be explained.

What have been the main determinants of faster
or slower aggregate economic growth? The literature on
the subject suggests the following propositions.

1. Economic growth has been more or less rapid as
the quantities of productive inputs of given qualities
have increased more or less rapidly. As available man-
hours of labour input increase, so does potential output.
(Decreases in average hours of work per day have had a
mixed effect on potential output; the decrease in average
hours of work decreases the total available labour inputs
but the effectiveness of an average hour's work has



1 increased). As the available stock of real productive
2 capital increases, so does potential output. Due to
3 scale economies, potential output increases more quickly
4 than the stock of inputs, other factors being unchanged.

5 2. Economic growth has been more or less rapid
6 as the qualities of productive inputs have improved more
7 or less rapidly. For labour, increases in the rate of
8 improvement of quality, through education of all forms,
9 has been treated as a major determinant of more rapid
10 economic growth. Attitudes toward work change also, but
11 these changes in quality are very difficult to measure.

12 3. Economic growth has been more or less rapid
13 as the productive inputs have been more or less effectively
14 channeled from less productive to more productive uses;
15 i.e. as capital markets, labour markets and institutional
16 arrangements in the broadest senses of these terms have
17 become more efficient.

18 4. Economic growth has been more rapid the more
19 complete has been the adoption of the opportunities
20 presented by technological and organizational knowledge.

21 5. Economic growth has been more rapid the greater
22 the increase in technological and organizational knowledge.

23 The emphasis that is placed on these elements
24 varies enormously from one economist to another, with
25 profound implications for policies. For example, Dennison
26 does not treat the accumulation of real capital and im-
27 provements in the quality of capital as major explanations
28 of past variations in growth; but he does place great
29 emphasis on improvement in the quality of labour through
30 education, on efficiency in finding and exploiting the best



opportunities at any point of time, and on scale economies. The implication of this position for growth policy is to play down the significance of high levels of saving and real investment and of high rates of spending on research on capital goods; and to play up the significance of educational expenditure and efforts to increase competition. In contrast, as Abramovitz points out, in Solow's model "Capital accumulation was not a substitute for anything, or anything much, but it was the vehicle of everything". (M. Abramovitz, op.cit., P. 773.) Thus for policy, great emphasis would be given to maintaining high levels of saving and investment, and improvement in capital equipment.

The General Policy Implications About the Determinants of Economic Growth.

In thinking about economic growth and standards of living, I believe that you will find it useful to distinguish between three sets of questions. First: what have been the conditions that accounted for the growth in potential output in the past, and what are the general prospects for growth in potential output in the future, under existing arrangements and policies? Second: what are the principal means that might be used to increase potential growth in comparison with that which would result in existing arrangements and policies? What costs attach to these means? Third: what forces have accounted for the failure of realized output to attain potential levels for extended periods of time in the past? How may realized output be brought more into accord with potential



1 levels of output in the future?

2 While there are differences of view about the
3 importance of various elements in bringing about economic
4 growth, there is well-nigh universal agreement on some
5 ideas. For our society, economic growth is something
6 that our people apparently have wanted in the past.
7 Economic growth imposes costs, in the form of individual
8 and collective educational burdens, concentrated work
9 efforts, substantial and continuous saving, a willingness
10 to accept change, a struggle to develop and use knowledge,
11 an acceptance of competitive standards of excellence, and
12 a system of rewards that is related to economic contri-
13 butions and talent. To maintain potential growth in the
14 future in a society of our present form, will require
15 the maintenance of this general milieu, though not in
16 every detail. Even so, not all of the elements that have
17 made powerful contributions to growth in the past can be
18 counted on to carry the same weight as contributors to
19 economic growth in the future. For example, if improve-
20 ments in the average quality of the labour force by
21 increased education has brought about increases in
22 productivity in the past, the same source may be a less
23 powerful stimulus to further productivity increases in the
24 future. We might already have achieved most of the
25 increases in quality of the labour force that can be
26 brought about by education. I don't believe that this
27 is so, particularly for Canada; the matter is raised to
28 illustrate issues on which you have to exercise careful
29 judgments.

30 For Canada one of the main questions concerns



1 the ways in which the rate of growth in potential output
2 may be increased. Many students of Canadian economic
3 developments have suggested that Canada should be able to
4 achieve relatively more rapid potential growth in the
5 future (in comparison with both Canada's past experience
6 and with the potential growth of other countries). To
7 the Resources For Tomorrow Conference, Professor
8 Easterbrook suggested that Canada is moving into the
9 situation in which a strong, indigenous development should
10 be possible, in contrast with the somewhat satellitic and
11 derived nature of the past economic growth. Canadians
12 have been told in recent years about the comparatively
13 more favourable growth experience in Sweden, a country
14 which is of roughly the same industrial-urban age as Canada.

15 Dennison points to a number of factors that raise
16 doubts about the possibility of more rapid growth in the
17 United States in the future than in the past. Much of
18 the stimulus to growth rates that could be attributed to
19 increased education of the labour force have been
20 realized; much of the improvement in the productivity of
21 each hour's labour which is associated with reductions in
22 average working hours has already been achieved;
23 expenditures on research and development are subject to
24 sharply diminishing returns; the capital stock is already
25 large relative to output; international trade barriers have
26 already been substantially reduced; and a great easing in
27 United States immigration controls is rather unlikely.

28 Even if Dennison's judgments are accepted for
29 the United States, the same limitations do not apply with
30 the same force to Canada. The implication is that Canada



1 might reasonably expect a more rapid growth in potential
2 output than the United States. We have not proceeded nearly
3 as far as the United States in investment in improving
4 the quality of the labour force by (all forms of) educa-
5 tional expenditure, nor in expenditures on research and
6 development. Canadian immigration policies are likely, on
7 the average, to be somewhat less restrictive on entry in
8 the future than may be those of the United States. The
9 cost of the Canadian tariff to Canada appears to be
10 larger relative to our national output than a comparable
11 estimate for the United States. In other words, the
12 potential economic growth for Canada which you consider
13 as a target should be somewhat larger than the forecasts
14 of potential growth of the United States.

15 But these observations still leave open the
16 question of whether and how potential Canadian economic
17 growth might be increased beyond that which would take
18 place with a continuation and extension of existing
19 policies and arrangements. Intensified educational efforts
20 are generally agreed as offering one of the most
21 promising routes. Increased immigration is almost as
22 generally agreed to be an important route. High levels of
23 saving and investment will be required to sustain economic
24 growth, but it is not clear how much of a contribution to
25 more rapid potential growth could be made by ever higher
26 rates of saving and investment. Canada has lagged in
27 research expenditures. The Canadian economy does not
28 appear to be as competitive as is that of the United States,
29 and it should be possible by foreign trade policy and
30 changes of internal institutional arrangements to make it



1 more competitive, thus stimulating potential economic
2 growth. Some economists argue that a more efficient
3 allocation of investment funds could be brought about by
4 flushing retained profits out of corporate enterprises,
5 but it is not at all clear that this proposition is sound.
6 The Commission will have to reach a judgment on this issue.
7 The view is also current that we do not reward sufficiently
8 highly the efficient and profitable developments in the
9 economy, and thus inhibit the flow of manpower and capital
10 into more productive uses. The tax system is held partly
11 responsible for this alleged situation. I don't know
12 whether or not the latter views are correct, but they
13 raise issues on which you must make up your minds. Finally,
14 some economists argue that some kinds of investment are
15 more productive than others. A popular notion in the
16 United States now is that the social benefits (but not
17 necessarily the private benefits) of investment in
18 machinery and equipment are greater than for comparable
19 amounts of investment in structures. (This view is
20 reflected in the United States tax legislation of 1962).
21 I don't know whether this view is correct or not, but it
22 is certainly an issue on which you will have to make up
23 your minds. If the view is correct, and if the object is
24 to stimulate potential economic growth, you may be led to
25 recommend a tax system which stimulates some kinds of
26 investment relative to others.

27 For Canada, the most important problems of the
28 moment are not the stimulation of rates of potential
29 growth, nor even the maintenance of the rates of potential
30 economic growth that have been experienced during the past



1 four and a half decades. The overwhelmingly important
2 problem is how to come closer to realization of the
3 potential output and income and employment that we already
4 possess. I defer consideration of this issue to a later
5 section of the brief, which deals with economic stabiliza-
6 tion.

7 Tax Policy and the Rate of Potential Economic Growth
8

9 The state of knowledge about the effects of tax
10 policy on potential economic growth is doubly unsatisfactory.
11 As noted above there is considerable uncertainty about the
12 more and less important determinants of variations in
13 potential economic growth. And there is even more un-
14 certainty about the effects of tax policy on many of the
15 proximate determinants of potential economic growth. For
16 example, we don't have very clear notions of the effects
17 of tax policy on the levels and distribution of saving
18 and investment, nor on the size and effectiveness of
19 research and development expenditures. Part of the problem
20 is that the total economic effects of a policy are
21 different from the direct effects.

22 Most of the older a priori expectations about the
23 effects of the relative growth of government expenditures
24 (and thus of increased tax burdens and complex tax structures)
25 on potential rates of economic growth do not appear to
26 have been borne out by experience. A huge increase in the
27 relative size of government expenditures and tax burdens
28 has not been accompanied by any clearly identifiable trend
29 toward relative reductions of personal and business
30 savings, nor any clearly identified trend toward less



1 intensive work. While the growth of government activities
2 has included a growth of functions of rather low
3 productivity, it has also included growth in many
4 activities which have contributed powerfully to economic
5 growth; such as increased educational expenditure,
6 agricultural and industrial research, improved communica-
7 tions and so on.

8 The growth of government expenditures, and high
9 tax rates and complex tax structures has undoubtedly
10 introduced wastes. But it is not clear that these wastes
11 are larger than was inevitable as a by-product of
12 increased government activities. Most of the efforts that
13 go into finding ways to minimize the tax burdens of
14 individuals and institutions under the existing tax system
15 must be regarded as a social waste. The unfrugal be-
16 haviour that is induced by high corporation taxes must
17 also be regarded as largely a social waste. But how large
18 are these wastes? Could the tax system be changed in such
19 a way as to substantially reduce them, and so bring about
20 a larger potential economic growth? Is the increase in
21 potential economic growth that might thereby be induced
22 quite large or infinitesimally small? I have raised other
23 questions earlier regarding the effects of the tax system
24 on the efficiency of the allocation of investment funds
25 and the channeling of resources in general into the most
26 productive activities. These are important questions for
27 our tax inquiries in Canada, but the literature on the
28 subject does not provide simple clear answers.



1 5. ECONOMIC STABILITY AND "FULL EMPLOYMENT"

2 Among the matters on which the Commission is
3 asked to consider and report upon are: "(b) the effects of
4 the tax system on employment....economic stability and
5 growth;". I take it that you are to examine cyclical
6 variations in aggregate output, income, employment and
7 price levels; Canadian objectives and circumstances in
8 relation thereto; and the tax system and tax policy in
9 relation to the attainment of these objectives. I believe
10 that you should not limit your inquiry into stabilization
11 too narrowly; and that you should interpret consideration
12 of the tax system to include quantitative studies of the
13 effects of changes in tax policy.

14 The Framework of Stabilization Problems and Policy
15

16 You are familiar with the main current of ideas
17 concerning the problems, objectives and policy of
18 economic stabilization. Therefore I will confine myself
19 to a brief summary of these as a basis for my comments
20 on problems and policy.

21 1. The principal objectives of stabilization policy
22 are to lessen the degree and duration of departures of
23 aggregate output, income and employment from full capacity
24 and full employment levels, departures that may be brought
25 about by forces external or internal to the economic
26 system. A secondary objective of stabilization policy is to
27 limit trends toward inflation or deflation, this objective
28 being related to stability of output, income and employ-
29 ment as well as to the efficiency and equity with which
30 an economic system works. Stabilization policy is often



1 called counter-cyclical policy, implying that business
2 cycle adjustments bring about departures of output,
3 income and employment from full capacity levels, and that
4 the main concern of stabilization policy is to counter
5 these business cycle tendencies. This conception of the
6 problems and policies of economic stabilization is roughly
7 satisfactory so long as business cycles are not interpreted
8 too narrowly, and so long as the interdependencies between
9 business cycle experience and other types of economic
10 disturbances are recognized.

11 2. The objectives of stabilization policy refer
12 to the whole of an economic (or at least to a broadly-
13 defined economic region) rather than to particular sectors.
14 Economic policy has other objectives besides stability,
15 including economic efficiency, equity, growth, and the
16 preservation of a viable position in a country's inter-
17 national trade. Some of these other objectives may be
18 competitive with economic stability; for example, conflicts
19 sometimes arise between the goals of economic stability
20 and a country's balance of payments position. But some of
21 the other objectives of economic policy are complementary
22 to the goals of stabilization; for example, the incidence
23 of unemployment falls very unevenly on the population and
24 is thus extremely inequitable. A policy which reduces the
25 average unemployment in a nation is at least partly
26 complementary with a closer attainment of goals of equity.
27 More important perhaps, the art of economic policy is to
28 find those combinations of policies which permit the
29 simultaneous and complementary pursuit of the various
30 objectives of policy.



3. You will encounter a great deal of skepticism about our understanding of the causes of economic instability; about the feasibility of attaining stabilization goals without serious prejudice to the pursuit of other economic, political and social objectives; and about the effectiveness of stabilization policy. But you should never lose sight of the philosophical and political revolution that has taken place with respect to public policy and economic stabilization.. The governments of all industrialized national accept economic stabilization as an important goal, and accept the notion of governmental responsibility for policies to attain the goal. There are still groups that give "lip service" to the idea of balancing government budgets annually, but I don't think that you should take this point of view at all seriously.

4. The main strategy of stabilization policy is to arrange the fiscal and monetary system and the active elements of fiscal and monetary policy so that they limit and/or offset departures from full capacity output, income and employment due to developments in the private economy; and so that they limit departures of price levels from objectives in that regard. The tactical organization of stabilization policy can take many forms. The emphasis can be placed on tax, transfer and monetary policy designed to create conditions which will lead private individuals and institutions to alter their behaviour in ways which contribute to attaining the stabilization goals; or the emphasis can be placed on variations in government expenditures on goods and services to counter the fluctuations in private expenditures. The tax,



1 transfer, government expenditure and monetary systems
2 can be arranged so that they have built-in characteristics
3 to promote stability (i.e., considerable reliance can be
4 placed on the "built-in stabilizers"); or emphasis can
5 be placed on discretionary and ad hoc policies formulated
6 by government legislatures and executives as stabilization
7 problems emerge. Emphasis can be placed on broad general
8 instruments of stabilization policy (whether built-in or
9 discretionary) such as general changes in tax rates or
10 general monetary ease; or on selective, special purpose
11 instruments of policy (again either of the built-in or
12 discretionary type). There can be more or less use of
13 persuasive devices, planning and co-operative programmes,
14 direct controls, wage policies and government enterprises
15 in stabilization policy.

16 5. This is not the place to try and lay out a
17 theory of the tactics of stabilization policy. I will
18 confine myself to a few questions and observations in this
19 regard. But I want to emphasize the importance of the
20 Commission seeing the stabilization problem and policy
21 alternatives as a whole, and in a consistent framework
22 within which the mix of policies can be examined con-
23 sistently, as a basis for your specialized inquiry into
24 the tax system. As you know there is considerable doubt
25 concerning the actual (and potential) contribution to
26 stabilization that can be made by monetary policy. There
27 is considerable doubt also about the effectiveness of
28 variations in government expenditures on goods and services
29 as a contributor to economic stabilization. The taxation
30 system and tax policy are generally regarded as the most



1 important elements in stabilization policy. Your problem
2 is to examine their effectiveness in this regard and also
3 the interrelationship between tax and other policies for
4 economic stabilization.

5 Some Suggestions Regarding Stabilization Issues and Policy
6

7 1. In your work I suggest that you give explicit
8 individual attention to output, real income and employment.
9 It appears that the behaviour of these magnitudes is by
10 no means perfectly correlated over a cycle, or from one
11 cycle to another. Both in Canada and the United States,
12 one of the most surprising features of the experience
13 of recent years has been the limited degree to which
14 unemployment has been reduced in periods of business
15 cycle expansion. For tax policy, including changes in the
16 tax system, it may be highly relevant to distinguish
17 between stabilization of aggregate output, of real income,
18 of employment.

19 2. I believe that you are going to have to make up
20 your mind regarding the degrees to which and the ways in
21 which incompatibility between full capacity output, and
22 price level "stability" or balance of payments equilibrium
23 arise in Canada. In doing this, you will have to specify
24 fairly precisely the stabilization goals that you consider
25 attainable for Canada (or attainable under various
26 specified circumstances). As you probably know, one
27 rather popular (though not universally accepted) notion
28 among economists nowadays is that as an economy approaches
29 full employment and full capacity output levels, an
30 inflationary process comes into operation which has a



1 dynamic of its own, and which lags somewhat after changes
2 in real output and employment. The implication is that,
3 if we are to avoid inflation or balance of payments
4 disequilibrium, we shall have to be satisfied with stopping
5 substantially short of full employment and full capacity
6 output. The implication also is that we shall have to
7 restrain the forces of business cycle expansion well before
8 the time when inflationary experience actually shows up,
9 or before a balance of payments deficit appears (One of
10 the clearest statements of this view is found in F. W.
11 Paish, Studies in an Inflationary Economy, (London:
12 MacMillan, 1962).)

13 Is this view correct? At what points do
14 serious conflicts arise? Even if it is, can public policy
15 and institutional reform improve the compatibility of
16 full employment or full capacity output and price level
17 stability? If so how? What role if any does the tax
18 system play in this connection? Can tax policy improve
19 the performance?

20 3. If your work, I believe that you should give
21 explicit consideration to different kinds of instability
22 and to interrelationships between instability and other
23 kinds of economic problems. While it is desirable to
24 achieve as much success as possible in limiting the degree
25 and duration of fluctuations in minor business cycles, it
26 simply may not be possible to achieve perfection in this
27 respect. However, errors in policy in this regard may not
28 be very costly. But a policy which is geared to a minor
29 business cycle recession when a major one develops (or a
30 policy which is geared to the expansion phase of a growth



1 cycle when a recession phase develops)--would constitute
2 a gross error which would be extremely costly. Similarly,
3 to act as if the only problems were those of stabilization
4 in circumstances in which a country faced an excessively high
5 rate of structural adaptation would also lead to gross
6 errors which also lead to gross errors which would be
7 extremely costly. I am not arguing that you must try to
8 forecast all of the different kinds of experience that
9 Canada may expect in the next decade. But I believe that
10 you should concern yourself with the principles that might
11 guide tax policy (including changes in the tax system)
12 for various combinations of circumstances and problems.
13 Also you should examine the record of stabilization
14 experience and policy (including tax policy) with these
15 notions in mind.

16 4. I believe that you should examine those
17 characteristics of the fiscal system which provide a
18 considerable degree of "built-in stability", the most
19 important of which lie in the tax system, and reach
20 conclusions regarding the effectiveness of these
21 characteristics. There is a view in the United States
22 that the built-in stabilizers of the tax system have been
23 operating in an over-powerful way in periods of business
24 cycle expansion, and that this phenomenon partly accounts
25 for the incompleteness of business cycle recoveries in
26 recent years (and the slowdown in economic growth). To
27 my knowledge there is not a published study of the question
28 which as yet warrants this conclusion, but it is quite
29 clear that the view has played a role in President
30 Kennedy's proposals for tax reductions and reform. Even



1 If this view is correct for the United States, it does
2 not necessarily follow that it would be correct for
3 Canada, because of differences in the fiscal system and
4 economic structures of the two countries. But the
5 question should be investigated for Canada.

6 5. You must come to a conclusion about the effective-
7 ness and potential effectiveness of fiscal policy as a
8 whole (and tax policy within this) for stabilization
9 purposes. In doing this, I believe that you will have to
10 form some quantitative notions of how much stabilization
11 has to be done, and what are the limits within which
12 opportunities now exist (or can be made to exist) for the
13 use of fiscal policy for stabilization objectives. A
14 shortfall from full employment and full capacity output
15 by 10 per cent is not uncommon; and yet it is a magnitude
16 of shortfall that represents a great loss, more than
17 \$4 billion of output per year at the present time. To cut
18 the shortfall in half requires increased expenditures of
19 \$2 billions per year. How effective is fiscal policy
20 (built-in; discretionary and what have you) in bringing
21 about swings of demand of this order? If fiscal policy
22 is not (and cannot be made) very effective, (and monetary
23 policy is not particularly effective) then we either have
24 to reduce substantially our targets in stabilization policy
25 or find new instruments and institutional arrangements to
26 achieve the targets. A dispassionate reading of the
27 recent economic history suggests that Canada faces this
28 dilemma, along with many other countries. The interest
29 in a wages policy, in various forms of planning and co-
30 ordination, in special loan funds and selective credit



1 and tax policies, derives from a pessimism about the
2 effectiveness of stabilization policies which rely on the
3 general monetary and fiscal instruments.

4 6. One of the most difficult problems you face in
5 dealing with stabilization problems and policy is that not
6 all of the important phenomena are readily amenable to
7 quantitative treatment. Almost every business cycle
8 theory contains a soft element, variously described as the
9 role of changing expectations, psychological forces, and
10 so on. Attempts have been made to construct indicators
11 and models which capture these influences, but with
12 comparatively little success as yet. If these soft
13 variables are important for business cycle theories
14 (which set out causes of instability) then they also are
15 for judging the effects of the tax system and tax policy
16 in relation to stabilization objectives. To put the
17 point another way, the effects of the tax system and tax
18 policy on employment, economic stability and growth will
19 depend upon the circumstances of an economy, circumstances
20 which may be only crudely measured ex post, and not
21 predicted at all well.

22 7. From the point of view of stabilization
23 objectives I think that you will find that fiscal policy,
24 (and particularly the tax system and tax policy) is much
25 less efficiently used in this country than it might be.
26 The effectiveness has been limited by the general tradi-
27 tion of annual budgets and annual tax-setting. In the
28 United Kingdom arrangements have already been made so that
29 the Executive branch of government can exercise limited
30 powers to change tax rates, apart from the annual budget;



1 and similar arrangements were mooted in the United States
2 by the Commission on Money and Currency. From a stabiliza-
3 tion point of view, the case for providing the Executive
4 with a range of fiscal flexibility to be among the stan-
5 dard powers of the Cabinet is a very attractive idea.
6 There may also be considerable scope for altering the
7 time-path of the impact of the built-in stabilizers, but
8 the direction in which this should be modified will
9 depend on answers to the questions which were raised
10 above? A shift from income to commodity or expenditure
11 taxes and user charges may also permit improved effective-
12 ness of the tax system for stabilization purposes.

13 8. Finally, I suggest that you have to make up
14 your minds about the use of general tax policies as compared
15 with selective and incentive tax policies, from the point
16 of view of stabilization objectives. Selective, special
17 purpose policies have a great seductive appeal. But the
18 record of their use seems to me to be very ambiguous.
19 They present administrative nightmares and extended use
20 of administrative discretion. They add to the complexity
21 of the tax system in a world that is already so complex
22 that the electorate has a difficult time understanding
23 economic issues and policy. They often have side effects
24 which reduce their overall effectiveness.

25 9. You will probably encounter the point of view
26 that business cycle recessions and sustained periods of
27 unemployment force attention towards efficiency in
28 economies like ours, just as a dose of sulphur and
29 molasses in the spring was thought at one time to be good
30 for a person's health. I think that such a line is very



1 misleading, and this for two reasons. I think that it
2 should be within the wit of man to devise an economic
3 system which encourages economic efficiency without
4 subjecting economies to substantial degrees to under-
5 utilization of productive capacity and the available
6 manpower. Also, it seems to me that public policy in
7 situations of unemployment is more likely to inhibit them
8 to encourage the development of long-run efficiency of
9 economies. Increased trade barriers, the protection of
10 vested positions, special subsidies and such like are much
11 more commonly developed in situations of economic stress
12 than situation of prosperity.

13 10. Some economists have expressed doubts that the
14 rate of economic growth realized is positively correlated
15 with success of stabilization policies. You will have to
16 make up your minds on this question. One rather obvious
17 piece of arithmetic should be kept in mind in this
18 connection. Even if more successful stabilization policies
19 did not increase the growth rate, that rate would be
20 applied to a large base of output, the more successful the
21 stabilization policies. Three per cent of \$45 billions
22 is larger than three per cent of \$40 billions.

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6. TAXATION, INTERNATIONAL TRADE AND THE BALANCE OF

PAYMENTS

Terms of Reference

Your terms of reference include the following passage: to consider and report upon: "(d) the effects of the income, sales and excise taxes and estate duties on income and investment flow which affect the balance of international payments and economic relations with other countries."

A number of questions are suggested by these terms. What has been the nature of Canada's foreign trade and balance of payments problems? In what ways and to what extent can these problems be attributed to the tax system or tax policy? What are the prospective foreign trade and balance of payments problems and to what extent are these due to or correctable by changes in the tax system or in tax policy? What are the relative merits of tax policy and of other remedies for Canada's foreign trade and balance of payments problems?

At first glance the inclusion of international trade and balance of payments matters in the terms of reference of a commission on taxation may be regarded as unusual. Import duties are not a significant element of government revenue nowadays; and policies related to import duties are primarily governed by considerations of foreign trade policy rather than public finance. Also the connections between the taxation system and policy and international trade and finance are mainly indirect. But, on reflection the terms of reference do not appear so strange. For quite some time the view has been widely held that the



1 competitive position of Canada and the United States had
2 deteriorated in comparison with the countries of Western
3 Europe and Japan. Tax policy has been considered (and in
4 the United States has been partly implemented) to improve
5 this competitive position. Also it has been alleged that
6 Canada has experienced balance of payments deficits (of
7 various kinds) from time to time in recent years, and an
8 exchange crisis did occur in 1962. It is quite reasonable
9 to look to the public finances of the country as a cause or
10 possible cure for these international trade and financial
11 problems.

12 Two limitations of scope must be kept in mind.
13 First, I suggest that the Commission can omit consideration
14 of the short-run aspects of Canada's exchange crisis of
15 1962. It may be that underlying economic conditions
16 (including the tax system and policy) created an environ-
17 ment favourable to an exchange crisis, but the emergence of
18 the crisis depended on other factors. Second, by your
19 terms of reference you are not bound to examine Canadian
20 commercial policy; indeed it appears that your terms
21 exclude such policy. You should recognize, however, that
22 other elements of tax policy can be used as a substitute
23 for changes in the tariff. If you consider the conscious
24 and direct use of the tax system to influence Canada's
25 exporting and importing position, then you will have to
26 consider the merits of such an attack in comparison with
27 tariff policy.

28 Under these terms of reference, a most important
29 distinction for you to make is between longer-run and
30 structural aspects of Canada's international trade and



1 financial position on the one hand, and short-run and
2 cyclical aspects of the position on the other. The recon-
3 ciliation of short-run balance of payments requirements
4 and domestic stabilization policies raises issues of the
5 short-run use and interrelationship of fiscal, monetary
6 and exchange rate policies. Changes in the tax system
7 cannot be the main element of policy to cope with such
8 problems. However, for dealing with major enduring struc-
9 tural problems of a country in relation to the world economy
10 (changes in markets, sales arrangements, capital flows,
11 resource availabilities, and industrial structures) modifi-
12 cations of a system or structure of taxation may be both
13 feasible and appropriate.

14 Some Allegations About Canada's External Position

15 The most popular notion about Canada's foreign
16 trade and balance of payments position is that the country
17 has experienced in recent years and is still experiencing
18 a chronic structural external deficit. There are several
19 distinguishable versions to this theme, most of which have
20 some (often minor) public finance aspect. It is one thing
21 for a country to experience swings in opportunities and
22 expectations and shifts in the structure of production and
23 trade. It is quite another matter for this experience to
24 be treated as a chronic structural external deficit (some-
25 times called a fundamental disequilibrium in the country's
26 international trade and finance). The latter implies
27 levels of expenditures which are extremely difficult to
28 restrict within a country's income; or an organization of
29 consumption, production and trade that is substantially out
30 of accord with the real external opportunities of a country,



1 or an international indebtedness position that can be borne
2 only with great difficulty.

3 The main facts pointed to as indicators of struc-
4 tural or fundamental disequilibrium in the Canadian economy
5 have been:

6 (1) The persistent deficit in the country's
7 international trade in goods and services and
8 the prospect of continued deficits; and,

9 (ii) the persistent increase in Canada's
10 international "indebtedness" and in the actual
11 and potential burdens of "servicing the foreign
12 indebtedness"; and,

13 (iii) the persistence of excessive levels of
14 unemployment and under-employment of the
15 labour force and productive facilities in
16 Canada; and

17 (iv) the high levels of government deficits.

18 These four elements are considered together as indicators
19 of "fundamental" economic difficulties. Those who take
20 this position suggest that Canada should or will be forced
21 to decrease its dependence on foreign financing. Thus the
22 country should or will have to reduce its deficit on
23 current international trade in goods or services by
24 increasing exports and/or decreasing imports. Since a
25 somewhat pessimistic view is held for Canadian export pros-
26 pects, the main emphasis is placed on reducing imports.
27 Canadian standards of living have been maintained in recent
28 years at excessive levels, so the story goes, by excessive
29 government deficits. The government deficits, it is
30 argued, have tended to sustain Canadian levels of imports



1 of goods and services and Canada's reliance on foreign
2 financing. Despite the high levels of government deficits,
3 unemployment has persisted in Canada. In part this is
4 imputed to the persistent Canadian use of imports rather
5 than domestically-produced goods. Some increases in
6 exports, substantial decreases in imports, reduced use of
7 foreign financing, reduced government deficits and a
8 recovery of private investment spending are suggested as
9 the main routes by which Canada may both pay its way inter-
10 nationally and produce domestic prosperity. The failure
11 of such developments to take place in sufficient degree in
12 recent years is the main support to the idea that Canada
13 has experienced (and still is experiencing) a fundamental
14 disequilibrium in its economy.

15 For those who diagnose Canada's economic diffi-
16 culties as chronic structural maladjustments, how it is
17 alleged that the difficulties arose? First, it is
18 suggested that Canada became a comparatively high-cost
19 economy by the mid-1950's, and continued to be so at least
20 until the depreciation and devaluation of the Canadian
21 dollar took place after June, 1961. In other words, it is
22 alleged that the Canadian dollar became over-valued in the
23 foreign exchange markets of the world, particularly from
24 1957 to 1961. Second, it is suggested that Canadian export
25 opportunities have not been extremely favourable after
26 1955, as had been expected earlier. Third, private busi-
27 ness investment expenditures, other than in housing, have
28 been at low levels in recent years; profit margins have
29 been abnormally small and a great deal of excess capacity
30 has developed. Fourth, it has been alleged that



1 governments have tried to maintain standards of living in
2 Canada by massive doses of government deficits and loans.
3 Standards of living have been maintained but production
4 and employment have not reached satisfactory levels.
5 Fifth, a major element in the argument concerns an alleged
6 high level of current payments for foreign goods and
7 services. This trend has been imputed to Canada's high-
8 cost position, to shifts of tastes of Canadians toward
9 imported goods and services, to increasing levels of
10 interest and dividends to foreigners, to increased payments
11 for foreign business services, and to a general myopia of
12 Canadians to the opportunities for purchasing goods and
13 services from domestic sources of supply. Sixth, some
14 observers believe that Canada has experienced a technolo-
15 gical crisis, with the country falling behind in the develop-
16 ment, and adoption of technological advances and in adjust-
17 ing the qualities of its labour force to the requirements
18 of the new technology.

19 Disequilibrium and Tax Policy

20 Are these elements of the theme of "Fundamental"
21 Canadian economic difficulties supported by evidence? If
22 so, are the fundamental difficulties large or small? --
23 transitory or chronic? To what extent are the tax system
24 and tax policies causes of the difficulties? These are
25 questions that you will have to answer. My judgment is
26 that there are some grains of truth to the proposition that
27 Canada is experiencing fundamental economic difficulties,
28 but a few grains don't make the whole bushel; that the
29 persistence and size of Canada's fundamental economic
30 difficulties have been exaggerated; that the nature of the



1 difficulties has been somewhat misunderstood and that
2 misleading policy implications have rather generally been
3 drawn from the difficulties.

4 There is some evidence in support of the notion
5 that Canada's competitive position deteriorated relative
6 to that of Western Europe and Japan (and even in relation
7 to the United States) in the mid-1950's and that this
8 deterioration has not been completely reversed as yet.
9 There is also some evidence indicating a relative decline
10 of interest of foreign investors in Canada, but there is
11 no support for the view that foreigners are unwilling to
12 continue their "lending" to Canada. Profit margins and
13 investment expenditures in Canada have been lower in recent
14 years in proportion to the size of the Canadian economy
15 than they were in the early 1950's, but is by no means clear
16 that the intermediate-term prospects for profits and invest-
17 ment in Canada are poor. The worries over the burdens of
18 "servicing" Canada's increased external "debt" have so far
19 been largely an exercise in making mountains out of small
20 hills. Much of the "debt is not a debt obligation at all.
21 While Canadian payments of interest and dividends to
22 foreigners have increased substantially since the early
23 1950's in absolute terms, the increase has been tiny in
24 comparison with the increase in Canadian income. Despite
25 the superficially appealing idea, there is no necessary
26 connection between the size of government deficits in
27 Canada and the size of the external capital inflow into
28 Canada (though there has been a connection, given the
29 other policies pursued by Canadian governments in recent
30 years).



1 Four tax questions illustrate some of the
2 problems in this area. First, for most of the postwar
3 period the tax treatment of capital cost allowances was
4 substantially more favourable to real investment in Canada
5 than in the United States. With the implementation of the
6 Revenue Act of 1962 and the revised administration arrange-
7 ments regarding capital cost allowances in the United States,
8 this advantage has disappeared. How significant an
9 influence may these changes be on United States investment
10 in Canada? Will the change in the United States produce
11 the increase in investment in machinery and equipment that
12 is expected in that country and thereby increase producti-
13 vity and improve the competitive position of the United
14 States in the world economy (and vis-a-vis Canada)? Should
15 Canada extent her postwar policy of exceptionally generous
16 capital cost allowances to attract foreign investment and/or
17 to improve Canada's competitive trading position. Second,
18 what is the impact on foreign investment of changes in
19 Canadian and United States tax treatment of income of
20 foreign-based and foreign-controlled companies. Third,
21 has the competitive position in the world economy of
22 Canadian producers been worsened substantially by the
23 current structure of Canadian taxation? We may be able to
24 defend removal of tax penalties to exports and import-
25 competing industries more easily than the introduction of
26 export subsidies through the changes in tax system. Fourth,
27 is it true that Canada lags badly in the development and
28 adaptation of new knowledge and in the exploitation of
29 market opportunities? If so, what marginal influence to
30 improve Canadian performance may be made by changes in tax



1 policy? What would be the direct and indirect costs of
2 such changes in tax policy?

3 7. FEDERAL - PROVINCIAL - MUNICIPAL GOVERNMENT FINANCE

4 Intergovernmental financial arrangements are not
5 part of the specific scope of your inquiry, but there are
6 certain aspects of these relations which you should consi-
7 der, at least as essential background to your report. The
8 central issue concerns the adequacy of existing arrange-
9 ments for the efficient operation of government activities
10 and for pursuing the objectives of growth, stability and
11 equity in the Canadian economy. The main dilemma arises
12 from two conflicting trends: the increased proportion of
13 governmental activities that fall to provincial and munici-
14 pal governments under our constitutional arrangements; and
15 the increased proportion of the tax base that it is most
16 effectively exploited by the federal government.

17 For many years these problems have commanded
18 attention in the United States. The United States' "solu-
19 tion" to the problem has mainly taken the form of the
20 assumption by the Federal Government of financial responsi-
21 bility for many activities that are constitutionally the
22 responsibility of the states and local authorities. More
23 often than not these steps have been taken without the
24 development of formal agreements between the state and
25 federal governments. The most obvious examples are in the
26 important role of the Federal Roads programme, Federal
27 housing programmes and Federal urban renewal programmes in
28 local government finance, arrangements that usually involve
29 no more than a token acquiescence or consent from state
30 governments. The federal government is financially



1 involved in education and natural resource development and
2 control to a much greater degree in the United States than
3 in Canada.

4 Canadian experience is somewhat unique, in that
5 we have attempted to solve the problems of providing the
6 variety of governmental services efficiently and equitably
7 within an effective federal state with substantial real
8 power and responsibility located at the provincial level of
9 government. A few activities have been transferred from
10 Provincial to Federal governments by formal constitutional
11 amendment. For other activities intergovernmental trans-
12 fers of functions, revenue sources and revenues (or mixtures
13 of three) have generally been carried out by agreement.

14 The growth of expenditures of the provincial and
15 municipal governments (in the United States, state and local
16 governments) has been much more rapid in the last decade
17 than the growth of expenditures of the federal government in
18 both Canada and the United States. Compared with the
19 overall size of the respective economies, expenditures by
20 provincial and municipal governments in Canada are now
21 substantially larger than are expenditures by their opposite
22 numbers in the United States. (This partly reflects the
23 greater assumption of financial responsibility for local
24 and regional governmental activities in the United States
25 than in Canada). These trends and comparisons suggest that
26 a major overhaul of intergovernmental financial relations
27 may be appropriate for Canada. I am not saying that there
28 is such a necessity. But it seems to me that the Commission
29 will have to come to a firm judgment on these trends before
30 they can reach conclusions regarding Federal finance.



1 Intergovernmental financial relationships should
2 also be re-examined from the point of view of stabilization
3 policy. It is quite clear that the amounts of federal
4 government expenditure on goods and services that may be
5 adjusted in a stabilization policy are quite small. Potentially,
6 there may be greater opportunities for economic
7 stabilization by varying provincial and municipal government
8 expenditures. But this potential has not been realized in
9 Canada. The possibilities of such policies influence the
10 magnitude of the stabilization tasks to be accomplished by
11 the federal tax system and tax policy, a matter of relevance
12 to your Commission.

13 8. ECONOMIZING IN THE PROVISION AND USE OF PUBLIC GOODS

14 The general practice in Canada has been for
15 governmental revenues to flow into general revenue funds
16 and for governmental expenditures to be met out of these
17 general revenue funds. In the past, there has been very
18 little use of earmarked taxes, or other specific methods of
19 relating government expenditures to revenues. (Government
20 business enterprises were an exception to this rule. These
21 arrangements were probably quite satisfactory in times when
22 governmental activities were more narrowly restricted; but
23 it is not at all clear that such arrangements are the best
24 ones that we could now devise. The problem for the Commission
25 is whether they can or should accept the traditional
26 arrangements regarding the raising of governmental revenues,
27 or when they can or should explore various means by which
28 government revenues and expenditures on some activities
29 might be more closely related.

30 An enormous, unplanned and confused growth has



1 taken place in the provision of goods and services and in
2 government transfer payments. In their use, many govern-
3 ment goods are treated by the public as substantially or
4 completely free goods. In some circumstances it is not
5 administratively feasible to arrange charges for the use
6 of government goods and for support of government transfers.
7 But this is not so for all circumstances. It now appears
8 desirable to establish closer connections between the provi-
9 sion and use of various public goods and the level and
10 distribution of the costs of providing them. Economizing
11 in the provision and use of such government goods has to
12 be accomplished by some mechanism; the goods are not free
13 to the society as a whole. The questions are whether and
14 to what extent and by what means a better system of econo-
15 mizing can be achieved. These are very important matters
16 for consideration in the design of a taxation system.

ROYAL COMMISSION ON TAXATION

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PRELIMINARY SUBMISSION

to the

ROYAL COMMISSION ON TAXATION

Submitted by -

THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

February 1963



THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

L'INSTITUTE CANADIEN DES COMPTABLES AGREES

Chartered Accountants Building,
69 Bloor Street East,
Toronto 5, Ontario.

To the Commissioners,
Royal Commission on Taxation,
Ottawa, Ontario.

The Canadian Institute of Chartered Accountants
is pleased to have been invited to participate in the
initial hearings of the Royal Commission on Taxation.
As requested, we have prepared an outline of the areas of
taxation which, in our opinion, require consideration by
the Commissioners.

It seems to us essential that the Commissioners
first establish the fundamental objectives of Canadian
tax policies. In establishing such objectives, regard
should be given to the attributes of a good tax system.
Such attributes would include: clarity, certainty and
equity in the law and its administration along with
convenience and economy to both the taxpayer and the tax
collector. Once the basic aims are established, the
Commissioners will be better able to judge the fairness
and equity of existing legislation and of changes
proposed by the various participants.

We believe that the Commissioners should
consider whether or not the present level of taxation has
an adverse effect on business and investment in general
and on personal initiative in particular. Having regard



1 to the present free flow of capital and individual talents,
2 the Commissioners should also consider the advisability
3 of attempting to maintain a level of taxation in Canada
4 which is, to any degree, significantly different from
5 that of other major countries of the world and, in
6 particular, the United States of America.

7 We also think that the Commissioners should
8 give attention to the portions of the total revenue that
9 should be raised by the various types of taxation.

10 The following paragraphs outline a number of
11 areas which we believe should be considered by the
12 Commissioners in detail:

13
14 INCOME TAX ACT

15 (a) Taxation of corporate distributions -

16 Corporate profits are taxed both at the corporate rate of
17 tax when earned and at the personal rates of tax when
18 distributed to individuals, although partial relief is
19 offered by way of the 20% dividend tax credit. Careful
20 consideration should be given to this double taxation of
21 corporate profits. In considering this problem and the
22 various solutions, the Commissioners should attempt to
23 determine the extent to which the corporate tax is in
24 fact borne by the shareholders and the extent to which
25 it may be passed on to others.

26 In addition, the double taxation of corporate
27 profits is the source of our long standing undistributed
28 income problem. Most corporations retain a portion of
29 their annual profits to finance expansion and to strengthen
30 their overall financial position. In so doing they



1 postpone the incidence of personal income taxes on the
2 portion of profits retained. By reason of the progressive
3 rates of personal income tax, distribution of these
4 accumulated profits may inflict a heavy burden of personal
5 tax. This problem has been relieved to some extent by
6 the introduction of a number of special provisions which,
7 in certain circumstances, allow distribution of accumulated
8 corporate earnings at various special rates of tax.
9 Unfortunately, inconsistencies in the rates and the
10 methods of distribution permitted by these special
11 provisions give rise to many inequities. In addition,
12 the complexity of these provisions leaves various loop-
13 holes which further aggravate the problem. Legislation
14 enacted from time to time in an effort to block such
15 loopholes has either failed or has been so severe as to
16 interfere with normal business transactions. The
17 constant concern over this problem by the members of the
18 business community, and the members of our Institute in
19 particular, gives emphasis to its seriousness. The
20 Commissioners should also consider the impact of these
21 matters on the economy of the country, the national
22 revenue and foreign investment in Canada.

23 (b) Personal corporations -- The personal
24 corporation provisions are intended to enable an indivi-
25 dual or a related group to obtain the benefits of the
26 corporate form of organization while preventing any tax
27 benefits by way of a deferral of personal income tax
28 liability on the income flowing into the personal corpor-
29 ation. At present it is relatively simple to avoid
30 personal corporation status and thus effectively postpone



1 the personal tax liability. The proposed amendments
2 which were outlined in the budget of June 1961 and later
3 withdrawn were so sweeping that their enforcement would
4 have interfered with many normal business arrangements.
5 Although the personal corporation concept may present
6 certain problems for our tax authorities, it may serve
7 a very necessary purpose and for this reason we feel that
8 the Commissioners should consider most carefully any
9 suggested amendments. The future position and tax
10 treatment of personal corporations may also depend on
11 the method of taxation adopted for surplus distributions.

12 (c) Associated corporations -- The existence
13 of a lower rate of corporate tax on an initial amount
14 of taxable income (at present \$35,000) has encouraged
15 corporations to divide their business activities into a
16 number of smaller corporate entities in an effort to
17 obtain the lower rate of tax on as much income as
18 possible. In an attempt to render this corporate man-
19 oeuvre unsuccessful, the current associated corporation
20 provisions were introduced. These provisions present
21 inequities both in application and in theory. In our
22 opinion, consideration should be given not only to the
23 inequities of the associated corporation provisions but
24 also to the whole question of the desirability of a dual
25 rate tax system for corporations.

26 (d) Tax incentives -- Many of the recent
27 changes in corporate taxation have been in the form of
28 tax incentives. We feel that full consideration should
29 be given to the whole area of tax incentives and whether
30 or not tax legislation is the best method of providing



1 incentives. In particular, attention should be given to
2 the following questions:

3 (1) Have the tax incentives accomplished their
4 intended objectives?

5 (2) Have they been directed to the proper
6 segments of our economy?

7 (3) Are there other areas where incentives
8 may be appropriate?

9 (e) Special provisions under the Income Tax Act

10 -- Under special provisions of the Income Tax Act, certain
11 types of taxpayers are treated differently from other
12 taxpayers. These include:

13 Agricultural organizations

14 Banks

15 Co-operatives and mutual organizations

16 Credit unions

17 Electric and gas utilities

18 Exempt federal, provincial and municipal
19 corporations

20 Extractive industries

21 Farmers and fishermen

22 Insurance companies

23 Investment companies

24 Prospectors

25 In our opinion, a careful review should be made
26 of all types of special treatments to assure that they
27 are warranted.

28 (f) Taxable income and its relationship to
29 accounting income -- A number of provisions of the Income
30 Tax Act conflict with recognized accounting practices



1 normally used in establishing the income of a business.

2 The main points of difference are as follows:

3 (1) There are cases in which the most suitable
4 method of valuing inventory is not accepted
5 for calculating income for tax purposes. For
6 example, the "last-in, first-out" method which
7 is considered the most suitable basis for
8 determining profit in certain industries.

9 (2) Provisions for future costs of servicing the
10 guarantee and warranty conditions of a sales
11 contract are not allowable for the purposes of
12 calculating income for tax purposes, even
13 though these provisions are an appropriate
14 charge against the current revenue and can
15 usually be estimated with reasonable accuracy.

16 (3) There are various types of expenditures which
17 are appropriate business expenses but which
18 are not deductible for tax purposes either as
19 current expenses or as deductions under the
20 capital cost allowance provisions.

21 (4) Serious difficulties arise from the present
22 provisions of Section 85B which bring into
23 income certain amounts which are not properly
24 included in income under generally accepted
25 business and accounting practices.

26 Consideration should be given to reducing these
27 differences between accounting income and income for tax
28 purposes. This applies also to the steps that might be
29 taken to reduce the uncertainty as to the distinction
30 between capital gains and ordinary income.



1 (g) Capital cost allowances -- Generally
2 speaking the "reducing balance method" presently in use
3 appears to furnish a satisfactory method of amortizing
4 capital expenditures for the purposes of calculating
5 taxable income. However, further consideration should be
6 given to the rate structure, classification of assets,
7 treatment of non-arm's length transactions, lease-option
8 arrangements and deduction of losses on disposals.

9 (h) Anomalies, inequities and loopholes --
10 There are many anomalies, inequities and loopholes in the
11 Income Tax Act that deserve careful study by the
12 Commissioners. It is the intention of our Institute to
13 make a number of recommendations in this connection in
14 our final brief.

15 (i) Administration -- The Commissioners should
16 review the current administrative practices with a view
17 to relieving some of the difficulties which arise between
18 the taxpayer and the Department of National Revenue.
19 Amongst other things, the Commissioners might consider
20 the following:

- 21 (1) Advance publicity of proposed tax changes
22 to provide the public, and particularly those
23 taxpayers most affected, with an opportunity
24 to study the proposals and submit constructive
25 criticisms and recommendations for improvement.
- 26 (2) Whether, in the future, the taxing statutes
27 should be the subject of continuous study and
28 review by a special body of qualified persons
29 in an effort to maintain fairness and equity
30 in the statutes and their application and to



1 observe and report on the effects of new
2 legislation.

3 (3) Whether some means should be sought to prevent
4 the delays in assessment procedures and to
5 reduce time consumed on relatively insignifi-
6 cant matters, especially those relating to the
7 timing of the inclusion of revenue or the
8 deduction of expenses.

9 (4) Whether the Department of National Revenue's
10 interpretation of current legislation should
11 be published and provision be made for prior
12 rulings on specific facts, which rulings would
13 be binding on the Department.

14 (j) Personal income taxes -- In our opinion,
15 the Commissioners should review the whole area of personal
16 income taxes and, in particular, should attempt to answer
17 the following questions:

18 (1) Is the present system of graduated personal
19 tax rates and the rate of progression consistent
20 with the objectives of Canadian tax policy?

21 (2) Is the present level of personal and dependents'
22 allowances appropriate?

23 (3) Are the present deductible expenses appropriate?

24 (4) Should certain types of income be exempt from
25 tax, e.g., unemployment insurance and workmen's
26 compensation benefits?

27 (k) Deferred compensation -- Consideration
28 should be given as to the adequacy of, and the justifica-
29 tion for, the tax provisions relating to deferred
30 compensation, i.e. pension plans, profit-sharing plans,



1 stock option plans and the like.

2 (1) Gift tax -- The Commissioners should review
3 the gift tax provisions, with special attention being
4 given to the rate schedule which, so far as we are aware,
5 has not received official attention for some time.

6

7 ESTATE TAX ACT

8 In considering the estate tax the Commissioners
9 should, in our view, attempt to obtain answers to the
10 following questions:

- 11 (1) Are the basic purposes of an estate tax
12 consistent with the objectives of a sound
13 tax policy for Canada?
- 14 (2) What are the anomalies and inequities of
15 the existing legislation and what amendments
16 should be introduced to ensure fairness
17 and equity and prevent undue hardships?
- 18 (3) To what extent do estate taxes as presently
19 levied --
20 (a) contribute to the transfer of control
21 of corporations from Canadian to non-
22 residents;
23 (b) discourage initiative;
24 (c) encourage taxpayers to seek avoidance
25 by transfer of domicile and other means?
- 26 (4) Are the present exemptions appropriate?

27

28 SALES TAX

29 In our opinion, the Commissioners should seek
30 answers to the following questions:



- (1) Is a sales tax consistent with the objectives of sound Canadian tax policies?
- (2) Is the system in use the most effective from the point of view of administration and equity or is there a more appropriate alternative? In this regard, consideration should be given to the stage at which the tax is levied.
- (3) If the present system is retained, what are the existing inequities and what amendments can reduce them?
- (4) To what extent is Ministerial discretion desirable in the administration of sales tax legislation?
- (5) Is the list of exemptions too extensive?

GENERAL

(a) Capital gains tax -- Consideration should be given to the advantages and disadvantages of imposing a tax on capital gains.

(b) Price level problems -- Some study should be made on the tax consequences of changes in the general level of prices and in the value of the monetary unit. It is recognized that this is an exceedingly difficult problem and it may be questioned whether a satisfactory solution can be devised to deal with extreme price level changes.

(c) Tax havens -- Consideration should be given to the extent to which Canadian corporations and individuals are carrying on operations in foreign



1 countries in a manner which may result in avoidance of
2 Canadian tax. Should any attempt be made to impose
3 Canadian tax on income from bona fide operations carried
4 on entirely outside Canada by foreign corporations or on
5 dividends received from non-resident subsidiaries?

6 The Institute, in its final brief, proposes to
7 cover at least the areas outlined above and suggest
8 answers to the questions posed. Where consideration of
9 a question requires a detailed economic study, we do not
10 propose to undertake such a study but rather hope to
11 express our opinion on the question by reference to the
12 practical experience of our members.

13 Although we appreciate that the Commissioners'
14 terms of reference restrict their studies to those of
15 federal revenue, the fact cannot be ignored that revenue
16 requirements are determined by government expenditures.
17 The Commissioners' studies might reveal that the present
18 level of taxation is a deterrent to the economic
19 development of the country and that no alternative system
20 of taxation is likely to produce the present revenue
21 without also acting as a deterrent. If this should be
22 so, we hope that the Commissioners would think it
23 appropriate to direct the attention of the Government to
24 the situation.

25 It is hoped that this outline of the problem
26 will assist the Commissioners in determining the areas
27 which require attention.

28 Respectfully submitted,

29 A. J. Little, F.C.A., Chairman.

30 Special Taxation Committee.

February 19, 1963.



Submission from the Canadian Labour Congress

Mr. Chairman and Members of the Commission:

The Canadian Labour Congress, the main Canadian central labour organization, with a membership of over 1,000,000 is located at 100 Argyle Avenue, Ottawa, Ontario. The Congress welcomes the opportunity to appear before you and to present its views. The following is intended to be only an outline of some of the issues which concern us. In our main submission we intend to examine these matters in detail, and there will probably be other issues which we shall want to consider.

The Canadian Labour Congress' general policy regarding taxation can be briefly stated as follows:

1. We believe that a comparatively high level of government spending is essential if rapidly growing public needs are to be met.

2. We believe that the general tax structure should be so designed that the incidence of taxation is as equitable as possible.

3. We believe that fiscal policy in conjunction with monetary policy can be a potentially powerful instrument for promoting full employment, economic growth and stability.

We should like to elaborate briefly on these points.

With regard to our first point, we believe that the acceleration of public needs arising from modern scientific, technological and economic developments, and greater and greater urbanization, will



1 make it necessary for public spending to rise absolutely,
2 and relatively to the gross national product. For
3 example, Government investment (national, provincial and
4 municipal) in hospitals, schools, provincial
5 universities, technological and scientific institutions,
6 housing, slum clearance and urban redevelopment, public
7 development and conservation of resources, etc., must
8 grow if the future needs of society are to be satisfied.
9 We believe also that demand for social welfare, in the
10 form of medicare, larger old age pensions, etc., will
11 continue to grow. If our assumptions are correct, it
12 means that the public sector of the economy will greatly
13 expand in the future.

14 The public cost of education alone will rise
15 rapidly. The great need for broadening the basis of
16 education is clearly evident. As scientific and
17 technological developments continue to raise the general
18 educational requirements of the Canadian labour force,
19 it will be necessary for a rising proportion of young
20 Canadians to have a higher education. A rapidly
21 changing technology also creates additional educational
22 needs, in the form of vocational training for young
23 people, and training and re-training of technologically
24 displaced workers. The need for greatly expanding adult
25 education is becoming more and more apparent. With
26 this growing need for investment in "human capital",
27 it scarcely needs to be said that the cost of such
28 investment will be heavy, and much of it perforce will
29 have to be publicly financed.
30



1 The continuing growth of urban areas which
2 give rise to costly public needs, is another example of
3 the necessity of finding new tax sources. Already there
4 is a huge backlog of essential community requirements,
5 as the Canadian Federation of Mayors and Municipalities
6 have repeatedly stated. Public needs at the community
7 level, if they are to be fulfilled, will claim an
8 increasing proportion of the nation's financial resources.

9 In our submission we shall go into these
10 matters in greater detail. We simply wish to stress
11 in this preliminary statement that it is our view that
12 Canada is at the threshold of a new era, an era which
13 will see the rise of unprecedented public, as well as
14 private, needs. Old concepts of a limited role for
15 governments, and "the more limited the better", are
16 anachronistic. It is our view that no society which
17 desires to keep pace with modern developments can afford
18 to adhere to such an out-of-date philosophy of government.

19 With respect to our second point, we believe
20 that because of the increasing relative importance of
21 public spending, it is all the more essential that the
22 means for raising government revenues become as
23 progressive as possible. There are certain features of
24 our present tax system which we believe could be made
25 more progressive. We wish, at this stage, simply to
26 refer briefly to them.

27
28 Corporation Income Tax

29 We are concerned about the possibility that
30 some corporations may shift a considerable part of their



1 tax obligations to consumers in the form of higher
2 prices. To the extent that they do, the corporate tax
3 becomes a regressive sales tax.

4 It should be noted that to the extent that
5 corporations can do this, the issue of "double taxation"
6 becomes questionable. Thus, the argument that the
7 dividend tax credit is necessary to eliminate "double
8 taxation" would become equally questionable.

9 We are also interested in knowing whether the
10 dividend tax credit has served another purpose for which
11 it was ostensibly introduced, namely, to induce
12 Canadians to invest in taxable Canadian corporations.

13
14 Personal Income Tax

15 With respect to the personal income tax, what
16 concerns us in particular is the widely held view that
17 those at or near the top income brackets seldom if ever
18 pay the corresponding rates set out in the Income Tax
19 Act. It seems to be taken for granted that various
20 loopholes make tax avoidance at these higher rates
21 possible. To the extent that this is the case, the
22 progressiveness of the income tax is undermined. Were
23 these loopholes abolished, it is conceivable that tax
24 rates applying to lower income levels might be reduced,
25 without affecting the size of tax revenues collected.

26 We believe that it would be desirable, for
27 example, to determine to what extent business expense
28 accounts may have become a means of evading income tax.
29 It would also be worth while, in our opinion, to determine
30



1 to what extent stock options contribute to income tax
2 evasion.

3
4 General Sales Tax

5 There are two aspects of the federal sales
6 tax which cause us concern. First, it is a regressive
7 tax, since its incidence falls equally on all who buy
8 goods bearing the tax, irrespective of the fact that
9 great inequalities exist in the purchasing power of the
10 buyers. While a good number of essentials are exempt,
11 the sales tax is, nevertheless, levied on a wide range
12 of goods which are purchased by all income groups. It
13 seems to us that this tax could be made less regressive
14 by replacing the present flat rate with some system of
15 graduated rates which would take into consideration
16 inequalities in the buying power of consumers.

17 Second, because the sales tax is levied at
18 the manufacturer's level, wholesale and retail markups
19 have the effect of pyramiding the tax so that the
20 consumer may pay considerably more than the 11 per cent
21 which is collected by the Federal Government. Not only
22 has this the effect of raising the cost of living; it
23 may also have the undesirable effect of reducing the
24 demand for goods, particularly where the demand is a
25 relatively elastic one.

26 Old Age Security Tax

27
28 We believe that the old age security tax on
29 personal incomes is unnecessarily regressive, since it
30



1 is a proportional tax applying to taxable income with a
2 ceiling of \$3,000. We find it difficult to find equity
3 in the fact that a Canadian with \$3,000 taxable income
4 pays the same old age security tax as another Canadian
5 with, say \$10,000 or \$50,000 taxable income. The Old
6 Age Security pension is a form of transfer payment, and
7 the purpose of a transfer payment is to effect a more
8 equitable distribution of national income. Such a
9 method of financing runs counter to this purpose. We
10 believe, therefore, that this tax should cease to be
11 proportional and that the present ceiling should be
12 removed.

13 Capital Gains Tax

14 We should like to see a study made to
15 ascertain the practicability of a capital gains tax,
16 i.e., to determine what its revenue value would be
17 relative to the problems of administering it.

18 Co-operatives

19 We are concerned about accusations from
20 certain quarters that co-operatives are not paying their
21 "fair share" of taxation. We believe these accusations
22 to be unjustified. There seems to be a good deal of
23 misunderstanding about the nature and purpose of
24 co-operatives, and we hope that your inquiry will help
25 to clear up such misunderstanding.

26 Fiscal Policy

27 We believe that fiscal policy, in conjunction
28 with monetary policy, can be a powerful instrument for
29
30



1 promoting objectives of full employment and adequate
2 economic growth. Total demand for goods and services at
3 present falls considerably short of what is needed to
4 create jobs fast enough to meet the needs of an expanding
5 labour force and to accommodate those who become
6 technologically unemployed, particularly in the goods-
7 producing industries. What is required, in our view, is
8 a fiscal policy that would accelerate demand.

9 It is our belief that at the present time
10 demand could best be raised through temporary personal
11 income tax cuts and through increased public investment.
12 The most effective way of raising demand through income
13 tax cuts would be to reduce present tax rates applying
14 to those in lower income brackets, since such persons
15 have a much higher propensity to spend additional income
16 than those in higher income brackets.

17 Income tax cuts and increased government
18 spending at the present time would necessarily result
19 in increased budget deficits. But the only legitimate
20 objection which can be raised against deficits is if
21 they are inflationary. Since present productive
22 capacity considerably exceeds demand, the question of
23 inflation is hardly relevant.

24 There are some who contend that what is needed
25 to stimulate economic activity is to reduce the present
26 corporate income tax. Their argument seems to be that
27 the present tax is "drying up" private capital funds,
28 and stifling incentives to further private investment.
29 A reduction in the corporate tax would, according to
30



1 their argument, increase the availability of private
2 capital and make investments more profitable, which
3 would stimulate private investment.

4 It is conceivable that under certain
5 circumstances, this argument might be sound. But under
6 present circumstances we find it exceedingly difficult
7 to understand this form of reasoning. For as long as
8 productive capacity exceeds effective demand, there can
9 be no incentive for businessmen to invest in still more
10 unused capacity. As far as the replacement of worn out
11 or obsolescent equipment is concerned, generous capital
12 cost allowances would seem to provide ample means for
13 this purpose.

14 The "high" corporate tax rates did not prevent
15 many corporations from investing excessively in the
16 1955-57 period. Business investment reached an all-time
17 high then because businessmen believed (erroneously,
18 as it turned out) that there would be a market for
19 increased output.

20 However, since the argument that "high"
21 corporate taxes impede economic growth seems to be widely
22 held in business circles, we shall await with great
23 interest your findings on this.

24 Perhaps one further comment should be made
25 respecting fiscal and monetary policy in a comparatively
26 open economy with a fixed exchange rate. We recognize
27 that expansionary policies may have the effect of
28 increasing imports relative to exports and therefore
29 produce an adverse effect on our balance of payments
30



1 position. It is for precisely this reason that we
2 opposed the abandonment of a free exchange rate and its
3 replacement (i.e., eventually) with a fixed rate. But
4 we cannot accept the position which some so readily take,
5 namely, that priority must be given to fiscal and
6 monetary policies that safeguard our balance of payments
7 position, even if those policies have an adverse effect
8 on employment and economic growth. It seems to us that
9 if this country is to maintain a fixed exchange rate,
10 then certain international monetary reforms should be
11 sought so that domestic policies appropriate to
12 internal requirements can be pursued without causing a
13 crisis in our balance of payments. We shall have more
14 to say on this in our submission, and we eagerly await
15 your views on this important matter.

16 Respectfully submitted on behalf of the
17 CANADIAN LABOUR CONGRESS,
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19

20 J. Morris, Executive Vice-President
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ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

OTTAWA

ONT.

BRIEFS

VOLUME No.: 1A

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April 19, 1963

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TORONTO

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ANGUS. STONEHOUSE & CO. LTD
TORONTO, ONTARIO

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6 STATEMENT TO

7
8 ROYAL COMMISSION ON TAXATION

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11 BY

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13
14 THE CANADIAN BAR ASSOCIATION

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17 99 SPARKS STREET

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20 OTTAWA

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26 OTTAWA

APRIL 19, 1963



1
2 STATEMENT TO
3 ROYAL COMMISSION ON TAXATION
4 BY
5 THE CANADIAN BAR ASSOCIATION
6

7 The Canadian Bar Association represents lawyers
8 across Canada who themselves and through their clients
9 have the greatest diversity of opinions and interests.
10 While lawyers as individuals have views on economic and
11 political problems which are at the root of any study of
12 taxation, it is felt that the Association cannot act as
13 the medium of expressing the opinion of lawyers as members
14 of the community on those problems.

15 The Association does not propose to advance
16 opinions on questions such as whether rates of tax are
17 too high, whether there is an imbalance between modes
18 of taxation or whether our system of taxation is impeding
19 economic progress. However, there are many aspects of
20 taxation in which the lawyer in his professional capacity
21 has a direct interest and of which he has knowledge
22 and experience. It is to these matters that the
23 Association directs its attention in this Statement.

24 In his letter inviting The Canadian Bar
25 Association to appear at the preliminary hearing of
26 the Commission, the Chairman invited the witnesses to
27 raise issues rather than settle them and to focus
28 attention on the task of the Commission. Within the
29 limits mentioned above the present Statement attempts
30 to comply.



1 The more detailed submission which the
2 Association will make at the appropriate time will deal
3 with the matters mentioned in this Statement, or some
4 of them or even with matters not now mentioned.

5
6 TAX LEGISLATION IN GENERAL

7 Should there be a group of senior officials
8 recruited from the Departments of Finance, Justice and
9 National Revenue who would have authority to confer with
10 the Public and who would devote full time to the
11 development, preparation and observation of tax
12 legislation?

13 Should more time be made available in the
14 legislative process in order that more public consideration
15 may be given to laws between their introduction and
16 passage?

17 Should authority be given for the publication
18 of draft regulations for public consideration before
19 their promulgation?

20 Should the emphasis in tax legislation be to
21 state the general principles to be applied or should
22 it be to deal with many contingencies by lengthy and
23 complex provisions?

24
25 CIVIL LIBERTIES

26 What is the effect of the present form and
27 content of tax statutes and their administration upon
28 the civil liberties of the subject, including

- 29 (a) Search and seizure provisions,
30 (b) Access to books and documents seized,



(c) Secrecy provisions,

(d) Client's privilege.

DEPARTMENTAL INTERPRETATIONS

(a) Should there be publication by the Department of National Revenue of interpretations of matters of general application?

(b) Should the Department be required to give advance rulings in individual cases?

INCOME TAX

ASSESSMENT AND APPEAL PROCEDURES, including

(a) Pre-assessment review,

(b) Diligent assessments,

(c) Delays in dealing with objectives and appeals,

(d) Limitations on re-assessment,

(e) Departmental appeal procedures,

(f) Judicial appeal procedures,

(g) Constitution and jurisdiction of the Tax Appeal Board.

TAX EVASION AND AVOIDANCE

(a) Should a distinction be made between tax evasion and tax avoidance?

(b) Are blanket anti-avoidance provisions necessary?

(c) To what extent should the matter of distinguishing between acceptable and unacceptable tax avoidance be left to the courts?

ASPECTS OF EXISTING LAW WHICH REQUIRE ATTENTION

The following are some of these:



- 1 (a) The treatment of capital gains including whether
2 there should be an objective definition of
3 "adventure in the nature of trade".
- 4 (b) Deductibility of expenses, there being a sub-
5 stantial range of legitimate business expenses
6 in respect of which neither capital cost
7 allowances nor deductions are available.
- 8 (c) Provisions leading to double taxation of the
9 same income, e.g. Sections 6 (1) (j), 8 and 17.
- 10 (d) What are the effects of having two widely
11 different rates of tax applicable to corporations
12 and the relationship of this policy to the
13 associated corporations problem?
- 14 (e) The treatment of corporate distributions and
15 re-organizations including
16 (i) complications in business transactions,
17 (ii) penal effect of present provisions in
18 some circumstances,
19 (iii) possibilities of wide-spread tax
20 avoidance,
21 (iv) complexity of the legislation.
- 22 (f) Correlation of provisions of Part III and
23 Part I of the Act so as to prevent possibilities
24 of tax avoidance by distribution to non-
25 residents.
- 26 (g) Treatment of personal corporations.
- 27 (h) Provisions which are intended to be punitive;
28 are they uniformly enforced? e.g. Ss. 8, 12 (3),
29 16, 137 and 138.
- 30 (i) Lease option agreements, S.18.



- 1 (j) Treatment of husbands and wives.
2 (k) Deferred profit-sharing plans S.79C.

3
4 ITEMS FOR CONSIDERATION WHICH DO NOT APPEAR IN
5 EXISTING LAW

- 6 (a) Tax free re-organizations.
7 (b) Consolidation of returns.
8 (c) Election by partnership to be taxed as corporation
9 and by corporation to be taxed as partnership.
10 (d) Deduction of costs of higher education.
11 (e) Extension of the averaging principle to others
12 than authors, farmers and fishermen.

13 ESTATE TAX

- 14 (a) Do Canadian death taxes as presently im-
15 posed cause excessive amounts of property to be tied up
16 for long periods in trusts? If so, is this desirable?

- 17 (b) Are Canadian death taxes responsible
18 for the break-up or sale of many Canadian owned businesses?
19 If so, is this desirable?

- 20 (c) Review of valuation provisions:

- 21 (i) Capitalization of annuities

22 and retirement allowances.

- 23 (ii) Alternate valuation date?

- 24 (iii) Fair market value to be the criterion
25 without artificial rules and with the
26 courts to decide?

- 27 (d) Should there be instalment payments of
28 tax on assets received by instalments?

- 29 (e) Adequacy of Provincial Tax Credit e.g.
30 with respect to moveable property situated outside the



1 province and transmitted within the province.

2 (f) Taxability of life insurance policies
3 effected while an employee, s. 3(4b).

4
5 SALES AND EXCISE

6 (a) A complete review of Administration is
7 suggested, including departmental practice
8 with respect to: "Sales Price" under the
9 Excise Tax Act, "Value for Duty" under the
10 Customs Act, "Class or Kind" under the
11 Customs Tariff, Dumping Duty Rules under
12 the Customs Tariff, Uniformity of Inter-
13 pretation, Method of Imposing Penalties.

14 (b) Review and codification of the law.

15 (c) Clarification and publication of
16 regulations and their interpretation.

17 (d) Desirability of increased statutory right
18 of appeal.

19 (e) Artificial concept of "manufacturer or
20 producer" in the Excise Tax Act.

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ROYAL COMMISSION ON TAXATION

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ROYAL COMMISSION ON TAXATION

P.C. 1962 - 1334

BRIEF

on behalf of

Joint Stock Insurance Companies, General Members

of the

Canadian Underwriters' Association

Montreal, March 20, 1963.

A. Leslie Ham, Q.C.

Counsel

Canadian Underwriters'
Association.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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To the Chairman and Members of the Royal Commission
on Taxation:-

1. This brief is filed on behalf of the Canadian Underwriters' Association, a body corporate under Part II of the Companies Act 1934, by Letter Patent dated April 1st, 1937 and its Members who are Joint Stock Insurers as listed in Exhibit A attached hereto.

2. The Section of the Income Tax Act R.S.C. c.148 1952 that is subject of comment herein is Sect. 74 entitled and reading as follows:

"Refund of Premiums.

74. In computing the income for a taxation year of an insurance corporation other than a life insurance corporation, whether a mutual corporation or a joint stock company, there may be deducted every amount credited in respect of business for the year to a policyholder of the corporation by way of dividend, refund of premiums or refund of premium deposits if the amount was, during the year or within 12 months thereafter,

- (a) paid to the policyholder,
- (b) applied in discharge, in whole or in part, of a liability of the policyholder to pay premiums to the corporation, or
- (c) credited to the account of the policyholder on terms that he is entitled to payment



1 thereof on or before expiry or termination
2 of the policy. 1948, c. 52, s. 67. "

3
4 A. Leslie Ham, Q.C.

5 Counsel for

6 Canadian Underwriters' Association
7 and its Members.
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1. INTRODUCTION

A. Liability for tax under Income Tax Act R.S.C. 1952
c.148 and the amendments thereto is imposed upon:

I. every person resident in Canada having taxable
income ("Taxable income" discussed in paras. 2
& 3 hereof.) at any time in the year. (Sect. 2
(1) of the said Act.)

MUTUAL AND CO-OPERATIVE CORPORATIONS ARE PERSONS.
(Sect. 139 (ac) Of The Said Act.)

II. every person who "carried on business in Canada
at any time in the year". (Sect. 2 (2) (b) of
the said Act) THE MUTUAL AND CO-OPERATIVE
CORPORATIONS HEREIN REFERRED TO CARRY ON BUSINESS
IN CANADA.

B. The purpose of taxation is to defray the cost of
Government:

I. All residents in Canada and persons carrying on
business in Canada or owning property are the
beneficiaries of the exercise of the functions
of government - irrespective of whether an
individual or a corporation, irrespective of
the basis of incorporation i.e. the benefits
and services of Government enure to the benefit
of all without discrimination ("The law is
presently concerned with determining a tax base
for measuring a business owner's contribution
to the State, which he must make in common with



1 other taxpayers deriving income both directly
2 and indirectly from the economic activity that
3 they all share." (Introduction to Income Tax
4 Law of Canada - F. Eugene La Brie pg. 86).).

5 II. That being so it is submitted that:

6 a. All should contribute equitably towards the
7 maintenance of peace, order and good
8 government. ("For present purposes it is
9 necessary only to outline a basic conception
10 of the normal objectives of the tax system.
11 These objectives are as follows, in order of
12 importance.

- 13 1. The raising of the necessary revenue with
14 which to meet the expenses of government.
15 2. The fostering of production through
16 (a) the maintenance of a balanced relation-
17 ship between saving and investment;
18 (b) the conservation of national resources;
19 (c) the preservation and development of
20 incentive to produce on the part of
21 both labour and management.
22 3. The spreading of the tax burden in the most
23 equitable manner possible, consistent with
24 the above objectives." ("The Taxation of
25 Corporate Income in Canada" p.15 - J.
26 Richards Petrie.).)

27 b. and that exemption from tax contribution
28 should only be on grounds that can be
29 reasonably justified in the interest of the
30



1 State i.e. in the interest of exempt and
2 non-exempt taxpayers alike.

3 C. An exemption from tax of one person is
4 tantamount to a subsidy provided by all other
5 persons who are taxpayers. THEREFORE a
6 taxpayer should be apprised of the extent of
7 the exemption and the cost of such "subsidy"
8 in order that he who shoulders the burden may
9 judge the soundness of the policy.

10 D. Factors having a bearing on the incidence of
11 tax discrimination.

12 I. The size of the tax levy relative to the
13 cost of living or of carrying on business.

14 a. where such tax levy is nominal, the
15 discrimination is perhaps immaterial
16 except in principle.

17 b. but, where it is substantial the
18 discrimination may be vital to a
19 taxpayer's ability to pay his own taxes
20 plus his share of taxes not paid by
21 those exempted.

22 II. As between commercial competitors, the
23 existence of subsidies or exemption if
24 substantial,

25 a. renders the taxpayer less able to meet
26 competition effectively;

27 1. as the subsidized or exempt competitor
28 prospers at the expense of the tax-
29 payer, the burden on the taxpayer
30



increases.

11. as it increases the competitive
position of the taxpayer worsens;

B. with his extinction, a source of revenue
disappears. ("Income tax concessions can be
an obvious stimulant and income tax
discrimination an obvious check on any form
of economic activity, since both are directed
to the resulting income reward." (Introduction
to Income Tax Law of Canada - F. Eugene La
Brie pg.25).).

2. THE NATURE OF "INCOME" AND "PROFIT"

A. The Co-operatives and Mutuals claim that the
fundamental basis of such operation is: that it is
not carried on for profit ("It is said of co-oper-
atives that no one could make a profit through
dealing with himself and that any excess of a
co-operative's receipts over expenditures was either
an excess of members' contributions or excess charges
upon members which had always belonged to the members
themselves." (Introduction to Income tax Law of
Canada - F. Eugene La Brie p.251).).

There is nothing to be gained in an exercise in
semantics in attempting to distinguish between
"Income" and "Profit" since the Act defines "Income"
as "Profit" (Sect. 4) and does not define the word
"Profit" at all. (A. "Subject to the other provisions
of this Part, income for a taxation year from a



1 business or property is the profit therefrom for
2 the year. 1948. c. 52, s.4" (Income Tax Act.)

3 B. "The word "profit" is not defined. In an early
4 House of Lord's decision Lord Herschell observed
5 "The profit of a trade or business is the surplus
6 by which the receipts from the trade or business
7 exceed the expenditure necessary for the purpose
8 of earning those receipts." (Introduction to Income
9 Tax Law of Canada - F. Eugene La Brie pg.85).).

10 B. It is to be noted however that the Royal Commission
11 on Co-operatives (P.C.8725 - 1944) did not support
12 this thesis.

13 I. In dealing with co-operatives:

14 a. they recommended repeal of the exemption contained
15 in Sect. 4 (p) of the Income War Tax Act (p.44 of
16 the Report) and

17 b. further recommended that:

18 "That the Income War Tax Act and The Excess Profits
19 Tax Act be amended to provide for the taxation of
20 co-operative associations and organizations on the
21 same basis as other persons in accordance with the
22 recommendations which follow." (p.44 of the Report)

23 II. With respect to Mutuals, the Commission records
24 that:

25 "We are of the opinion that Mutuals can and do have
26 income which is subject to tax". (p.65 of the Report)

27 C. And it is to be noted that Parliament took cognizance
28 of these findings in the subsequent legislation.

29 D. La Brie states "Its (i.e. Income) meaning is limited
30



1 by two cardinal principles, either or both of which
2 are involved in every decided case on the subjects"
3 ("The Meaning of Income in the Law of Income Tax"
4 F.E. La Brie pp.21 & 24.).

5 I. "The first of these principles is that income
6 includes only amounts arising or resulting from
7 the pursuit of gain" (p.21).

8 a. It is submitted it is the "spur of self interest"
9 that sponsors the creation of co-operatives and
10 mutuals.

11 b. And enjoins patrons to commercially support such
12 creations.

13 c. As Rowlatt J. points out in Graham v.Green (1925)
14 2 K.B. 37, at p.40:

15 "A person may organize an effort to find things.
16 He may start a salvage or exploring undertaking
17 and he may make profits. The profits are not
18 the profits of the findings they are the
19 profits of the adventure as a whole. Again he
20 may make a loss. One cannot say that the loss
21 was due to the failure to find. The loss is
22 due to the trade. That is a good test, because
23 it shows the difference between the trade as an
24 organism and the individual acts."

25 II. "The second underlying principle governing a
26 determination of income is that income means net
27 income, or "incoming" less certain "outgoing" or
28 expenditure, to be determined by ordinary
29 commercial principles" (p.24) ("The Meaning
30



1 of Income in the Law of Income Tax" F.E. La Brie
2 pp. 21 & 24.)

- 3 a. It is submitted that co-operatives have
4 "incomings" and "outgoings" and
5 b. if that latter exceeds the former the corporation
6 has suffered a "loss"; if the former exceeds the
7 latter the corporation has had a "gain" "according
8 to ordinary commercial principles."

- 9 c. It is submitted that if the membership of a
10 co-operative or mutual can be said to have
11 suffered a Loss in one year it is a distortion
12 of language to say that they cannot experience
13 a gain in another year.

- 14 d. Lord Herschell says in Russell v. Town & County
15 Bank (1888) 13 App.Cas.418 at p.424:

16 "The duty is to be charged upon "a sum not less
17 than the full amount of the balance of the
18 profits or gains of the trade manufacture,
19 adventure, or concern"."

20 And it is submitted that a co-operative and a
21 mutual are in themselves a "concern" engaged in
22 a "venture" in dealing with strangers who may
23 buy from or sell to or rent property from or
24 eg. in the case of a mutual its reinsurance and
25 investment transactions.

26 E. I.E. the rejection of the concept of the objective of
27 profit does not in itself eliminate the possibility
28 of profit that may arise out of:

- 29 I. the operation of a business or
30



II. the ownership of capital or property.

III. And it is submitted that mutuals and co-operatives do operate a business and do own capital and property all of which may produce income or profit and the nature of the ownership of the corporation in no way alters the character of such surplus.

3. AS TO THE BASIS UPON WHICH TAXES ARE LEVIED.

A. Co-operatives and Mutuals submit to taxes levied on many bases such as Property Taxes, Excise & Customs Taxes, Sales Taxes, License Fees of all descriptions, with no argument that they should be exempt because of the nature of their incorporation or their profession of faith.

I. The stand they take would be immaterial if there were no income tax at all and the cost of government was borne by taxes such as those mentioned above.

II. On the other hand if the cost of government were to be borne by income taxes alone they could make no contribution at all to cost of government.

III. IT IS THEREFORE SUBMITTED

a. THAT THE DISCRIMINATION BETWEEN COMPETITORS INCREASES AS INCOME TAX BEARS AND INCREASING PROPORTION OF THE TAX BURDEN.

b. AND SUCH DISCRIMINATION TENDS TO REDUCE THE AMOUNT OF TAXABLE INCOME WHICH MUST BEAR THE



1 INCREASING COSTS OF GOVERNMENT.

2 B. If it therefore is admitted:

3 I. that taxation should be equitable, particularly
4 as between competitors

5 II. and, that a corporation is an entity distinct
6 from its owners.

7 IT IS SUBMITTED THERE SHOULD BE NO DISCRIMINATION AS
8 BETWEEN COMPETING CORPORATIONS IRRESPECTIVE OF THE
9 TYPE OF CORPORATION OR OF ITS OBJECTIVES.

10 III. and if there is to be double taxation on profits
11 i.e. profits in the hand of:

12 a. the corporation and

13 b. again in the hands of its owners,

14 IT IS SUBMITTED THAT SUCH PRINCIPLE OF DOUBLE
15 TAXATION SHOULD APPLY IRRESPECTIVE OF WHETHER THE
16 EVIDENCE OF OWNERSHIP IS:

17 a. a stock certificate or

18 b. an insurance policy or other evidence of patronage.

19 C. Acceptance and utilization of the concept of the
20 "Money System" leaves those who use it, instead of
21 the barter system, subject to the imposition of
22 income tax.

23 D. Likewise the acceptance and utilization of the
24 concept of a "corporation" leaves those owners of
25 capital who desire to avail themselves of the
26 advantages of the corporation concept, open to the
27 imposition of a double tax on income.

28 E. IT IS SUBMITTED THAT THERE SHOULD BE NO DISCRIMINATION
29 BETWEEN CORPORATIONS ON THE BASIS OF EITHER:
30



1 I. the nature of ownership i.e. for example:

- 2 a. an insurance policy or some other evidence of
3 patronage and
4 b. a stock certificate,
5 c. this is particularly so when the corporations
6 carry on business with strangers.

7 F. J. Richards Petrie in his work "Taxation of
8 Corporate Income in Canada" p.77 observes: "The
9 Commission (the said Royal Commission on Cooperatives)
10 recognized that co-operatives differ from other forms
11 of business enterprise in that they are, to some
12 extent, obligated to make return to the members in
13 proportion to their patronage, and that these returns
14 resemble in part an ordinary price rebate or discount."

15 I. It is submitted that a "Patronage Dividend" is in
16 essence distinguishable from a "price rebate" or
17 "discount".

18 a. The reason A. B. & C. incorporate a
19 Co-operative or Mutual is that they believe
20 they can make a "gain" acting together that
21 they could not make acting alone, e.g.

22 i. The Member limits his liability with respect
23 to trading losses,

24 ii. There is the probability of gain from an
25 improved bargaining position reached through
26 the joining together and

27 iii. from income drawn from investment or
28 properties owned by them as a group.

29 b. Having adopted the concept of incorporation to
30 this end,



1 c. and the taxing authority applying a principle
2 of double taxation i.e. on income in the hands
3 of a corporation and on income of the owners
4 upon the distribution of profits,

5 II. IT IS SUBMITTED THAT THE DISTRIBUTION OF THE
6 CORPORATE INCOME TO OWNERS OF THE CORPORATION IS
7 NOT IN FACT:

8 a. "PRICE REBATE" OR "DISCOUNT".

9 b. BUT IN SUBSTANCE IS A DISTRIBUTION OF THE
10 CORPORATE INCOME OR PROFIT TO THE OWNERS OF
11 THE ENTERPRISE, ARISING OUT OF A VENTURE
12 DESIGNED TO REDUCE NECESSARY EXPENDITURES TO
13 PRODUCE THE DESIRED RESULT.

14
15 4. AS TO THE INCIDENCE OF TAXATION

16
17 A. The tax burden of any community is ultimately borne
18 by individuals: (It must be noted that, in contrast
19 with judicial pronouncements that the Canadian tax is
20 a tax on persons, the English Act is described as
21 imposing a tax on incomes. "The Meaning of Income
22 in the Income Tax Law" p.13 F.E. La Brie.)

23
24 I. as consumers, the tax being reflected in the
25 price paid for whatever is consumed.
26
27
28
29
30



- 1 II. As supplier of labour or capital or both or
2
3 III. both as consumer and the supplier of labour or
4 capital or both.
5
6 IV. I.E. there is nothing that can be called income
7 without labour and very little without capital
8 owned by individuals or collections of individuals.
9
10 B. Five citizens agree to collaborate in some venture
11 requiring capital and for one or more reasons
12 incorporate.
13
14 I. Whether incorporated as
15
16 a. a Joint Stock Company the ownership of which is
17 evidenced by Stock Certificates or
18
19 b. a Mutual or co-operative the ownership of which
20 is evidenced by say, an insurance policy or some
21 other evidence of the extent of the patronage of
22 the owners i.e. the extent of the individuals
23 interest in the assets of the Corporation,
24
25 II. IT IS SUBMITTED THAT WHERE A CORPORATION CARRIES
26 ON BUSINESS WITH THE RESULT THAT MONEY COMES IN
27 AND MONEY GOES OUT BUT LEAVES A SURPLUS IN THE
28 HANDS OF THE CORPORATION FOR THE BENEFIT OF ITS
29 OWNERS AFTER A YEAR'S OPERATION, UNDER THE LAW
30 AS IT STANDS SUCH SURPLUS IS TAXABLE INCOME OF
THE CORPORATION UNLESS IT IS DISBURSED AS POLICY
DIVIDENDS UNDER SECT. 74 OF THE ACT OR AS PATRONAGE
DIVIDENDS UNDER SECT. 75 OF THE SAID ACT.
a. If it is disbursed on the basis of ownership
of stock such dividends are again taxable in
the hands of the recipient as "Investment"



Income".

b. If disbursed on the basis of Policy or Patronage
Dividends such surplus:

1. is deductible as expense by the Corporation
under Sect. 74 or 75 and

ii. is only taxable in the hands of the recipient
if his payment to the corporation had been
deducted as an expense in his previous tax
statements.

iii. This is so whether the capital supplied by
the members produced income from:

(a) the trading operations of the corporation or

(b) investments in Real or Personal Property or

(c) investment in other corporations with

intention of furthering the concept of

co-operative enterprise, to the disadvantage

of the Consolidated Revenue and to the

possible extinction of its Joint Stock

competitors.

c. THUS IT IS SUBMITTED THAT THE USE OF UNTAXED

PROFITS FROM ONE VENTURE MAY WELL BE USED TO

EXTEND SUCH OPERATION IN THE CO-OPERATIVE FIELD

THUS TENDING TO

i. INCREASE THE VOLUME OF PROFITS FREE OF TAX AND

ii. INCREASE THE BURDEN ON THE PROFITS OF THOSE

SUBJECT TO TAX.

C. Subject to the submission stated in para. 2 p. 6 above,
that the excess of income over outgo in a co-operative
is in fact a gain or profit to the corporation; the



1 Co-operative argument that, "there is no profit to
2 the Corporation in the excess of income over outgo",
3 because such excess has "never beneficially been
4 received" by the Co-operative, could have some
5 support if the Co-operative itself:

- 6 I. merely made the mathematical calculation necessary
7 to determine share of each and every patron and
8 II. made the actual distribution of the whole surplus
9 amongst the patrons.

10 D. The fact is however the Co-operative itself owns and
11 controls such surplus, since it, through its Board
12 of Directors,

- 13 I. calculates the amount of the excess of income
14 over outgo;
15 II. decides what is allocated to reserves, and, pays
16 tax on this;
17 III. decides what is merely credited to patrons,
18 without necessarily making a disbursement of the
19 full amount credited;
20 IV. and thus obtaining from the proportion retained
21 additional working capital without expense.
22 V. IT IS SUBMITTED THAT THE GREATER THE NUMBER OF
23 PATRONS AND THE MORE NOMINAL THE AMOUNT OF THE
24 "HOLD BACK" PER PATRON, THE GREATER THE FACILITY
25 FOR LARGE CO-OPERATIVES TO ACQUIRE CHEAP WORKING
26 CAPITAL ON WHICH NO INCOME TAX IS PAID IN THE
27 HANDS OF:

- 28 a. THE CORPORATION OR
29 b. OF THE PATRON WHO HIMSELF WAS UNABLE TO CLAIM
30



1 AS EXPENSE HIS PAYMENT TO CO-OPERATIVE AS A
2 DEDUCTION FROM TAX.
3
4

5 5. STATUTORY ATTEMPTS TO AVOID DISCRIMINATION
6 WITH RESPECT TO "ASSOCIATED COMPANIES"
7 SECT. 139 (5a) and 39 INCOME TAX ACT.
8

9 A. Re the legislative effort to prevent avoidance of
10 tax by way of "fragmentation"

11 I. Mr. H. H. Stikeman, Q.C. has pointed out: (Isaac
12 Pitblado Lectures on Continuing Legal Education
13 1960-61 pp.138-139.)
14

15 a. "It started in 1949 when the Government of the
16 day decided that it would be a good idea to
17 encourage small business by giving a lower rate
18 of tax on the first \$20,000.00 of the income that
19 was taxable. This was very laudable and was
20 carried through in fairly simple language in the
21 predecessor section to Section 39. It was soon,
22 however, recognized that any business could
23 become a group of small business very quickly by
24 fragmenting itself into a number of corporations
25 since the benefit was only accorded to
26 corporations having this low rate of income, and
27 it was, therefore, found necessary that companies
28 which either deliberately broke themselves up or
29 were owned by a common interest, should only
30 between them enjoy one low rate of tax."



1 b. "Naturally the provision got stricter and
2 stricter as attempts were made to avoid the
3 situations which were created by the progressive
4 strictness of the legislation, until 1960 when
5 the Budget brought in a completely new concept
6 of associated companies and switched from the
7 test of ownership to a test of control."

8 c. "Now suddenly, overnight, the emphasis is swung
9 from ownership to control and all of the
10 situations which have been resolutely contrived,
11 and one hopes, irrevocably put together, become
12 death traps instead of escape routes."

13
14 II. This effort to safeguard Revenue required three
15 printed pages to set out Sect. 139 (5a), three
16 printed pages of difficult complicated and
17 perhaps uncertain drafting.

18 III. There are no figures available by which one can
19 measure whether the loss of revenue through the
20 recognition of patronage and policy dividends
21 would be equal to, less than, or greater than
22 the possible loss through "fragmentation".
23

24 IV. In any event however, it is suggested that the
25 trend to a narrower base for income tax is
26 inherent in the present legislation to the
27 detriment of:

- 28 a. the Consolidated Revenue of Canada and
29 b. the Joint Stock competitors of Co-operatives
30 & Mutuals and



1 c. in fact to every taxpayer in Canada, the
2 ultimate producer of wealth.

3
4 B. Re Pool Insurance Company incorporated October 5,
5 1940 Head Office Winnipeg, Manitoba (See Appendix B.
6 attached.).

7 I. The beneficial owners (I.E. on the basis prior to
8 1960 Budget:- ownership) of this Company are
9 three corporations viz. the three Provincial
10 Wheat Pools on the Prairies (See Appendix B.
11 attached).

12 II. At the same time they control (I.E. on the basis
13 of present Sect. 139 (5):- control.) the said
14 Company.

15 III. The Fire & Casualty Federal Government Blue Book
16 1960 Vol. II carries their Financial Statement
17 for the year ended Dec. 31, 1960 and it discloses:

18 a. Dividends to shareholders \$2.00

19 b. Patronage Dividends \$814,329.00

20 IV. There is substantial identity between the owners
21 and the recipients of the Dividends i.e. the
22 three substantial shareholders are the real
23 patrons while the shareholders who are individual
24 persons may or may not be, their shares likely
25 merely qualify them as Directors.

26 V. I.E. The Three Pools own and control the Company.

27 VI. And by virtue of Sect. 74 of the Act, whether a
28 tax on insurance company dividends is paid or not
29 depends not on the question of ownership or
30 control, but,



VII. IT IS SUBMITTED THAT WHETHER THE TAX IS
EXIGIBLE DEPENDS ON WHETHER THE "PROFIT
IS DISTRIBUTED TO THE BENEFICIAL OWNERS,
OR DEFACTO CONTROLLERS, IN THEIR CAPACITY
AS:

- a. SHAREHOLDER OR
- b. PATRON.

VIII. The Blue Book aforesaid shows with respect
to this Company there were:

a. Taxes paid of	\$ 16,347.00
b. Net premiums of and	778,747.00
c. that "Capital" employed in the business was:	
1. paid up capital	185,000.00
ii. premium paid on Capital Stock	155,000.00
Total	\$ 340,000.00

IX. Sect. 74 contains no safeguards such as is
provided under Sect. 75, eg. amongst others, the
one reading as follows:

"Where the deduction of an amount under
subsection (1) or (2) would result in the
taxpayer's taxable income for the taxation year
(before deduction of any amount under section 27
in respect of business losses) being less than
the amount by which

- (a) 3% of the capital employed in the business
at the commencement of the year,
exceeds



(b) the interest, if any, paid on borrowed moneys
(other than moneys borrowed from a bank
incorporated under the Bank Act or from a
corporation or association described in
paragraph (k) of subsection (1) of section
62) and deductible in computing his income
for the year,

the amount that may be deducted under this section
is such as will leave the taxpayer with a taxable
income (before deduction of any amount under Section
27 in respect of business losses) equal to the
excess."

X. The Provincial Premium Tax of 2% imposed by the
several Provinces of Canada, payable by all
insurers on a Net Premium income, would account
for: \$778,747. at 2%, or \$15,574.94 of the total
tax payment \$16,347.00 and the remaining \$772.06
represents all other taxes paid by the corporation
except Income Tax of \$4,645.00, which in 1960
wrote:

a. "Gross Fire Premium" less return premiums	\$1,533,307.00
deduct Re-Insurance	754,560.00
"Net Fire Premium Written"	<hr/>
	\$ 778,747.00

b. and this Company employs capital
in its operation of \$ 340,000.00

c. and returned as Policy (or
Patronage) Dividends to the
owners a total of 814,329.00



1 XI. It is true, that under such conditions this
2 could hardly be called an "adventure" in the
3 sense that Lord Herschell used the term in the
4 quotation above (para. 2.D.II.c. supra p.6) and
5 that used by Mr. Justice Rowlatt as quoted in
6 (para. 2.D. I. c. p.5 supra).

7
8 C. Re Canadian Pool Agencies Ltd. incorporated June 30,
9 1928 Head Office Winnipeg, Manitoba (See Appendix
10 "C" attached).

11 I. The beneficial owners (9 supra) of this company
12 are again three corporations viz. the three
13 Provincial Wheat Pools in the Prairies (See
14 Appendix (c) attached).

15 II. At the same time they control the said Company.

16 III. An abbreviated financial statement 1962 filed
17 with the Provincial Secretary of Manitoba (See
18 Appendix "D" attached) discloses that there are
19 Reserves and Dividends payable, in the amount of
20 \$110,836.37.

21 IV. But there is no breakdown to indicate:

- 22 a. what are reserves and what are dividends nor
23 b. whether the dividends will be or have been
24 declared as stock or patronage dividends.

25 D. It is a fact that the only thing one can be certain
26 of in this phase of the "Wheat Pools" operations
27 in the insurance field, and it is a sizeable one,
28 is that there is at least \$2.00 income that is
29 "profit", viz the \$2.00 stock dividend disclosed in
30



1 the statement of the Pool Insurance Company recorded
2 in the said Federal Government Insurance Blue Book
3 referred on page 14 hereof.

4
5 E. IT IS SUBMITTED THAT THE INCORPORATION OF THESE TWO
6 COMPANIES WAS NOT UNDERTAKEN FOR NO REASON AT ALL AND
7 IT IS SUGGESTED THE RESULT OF, IF NOT THE REASON FOR
8 THE INCORPORATION OF THEM IS A "GAIN" TO THE OWNERS.

9 1. If one or all of the Wheat Pools attempted to meet
10 their insurance requirements by means of a self
11 insurance fund "Profit" directed to a reserve
12 to this end would be taxable under the Act.

13 II. By the creation of the Pool Insurance Company
14 and the Canadian Pool Agencies Ltd., the three
15 Wheat Pools with the limited liability inherent
16 in a corporation secure their insurance protection:
17 a. in part from a corporation that they own and
18 control, and
19 b. the balance at reinsurance or wholesale rates,
20 and
21 c. free of agency acquisition cost,
22 d. subject only to the actual expense involved in
23 the creation and operation of the two
24 corporations.

25 III. The "Profit" of any person or corporation is,
26 as has been pointed out before, the surplus
27 of income over outgo and can arise either from:
28 a. increasing income relative to outgo or
29 b. decreasing outgo relative to income.
30



1 IV. IT IS SUBMITTED THAT THE CREATION AND OPERATION
2 OF THESE TWO CORPORATIONS HAS ACHIEVED A DECREASE
3 IN OUTGO FOR THE BENEFICIAL OWNERS VIZ. THE
4 THREE WHEAT POOLS OF WESTERN CANADA.

5
6 F. What is argued above is true in a greater or lesser
7 degree of any Mutual or Reciprocal insurance
8 operation that does more than merely assess Members
9 for their equitable contributions to losses as they
10 occur, since otherwise as a group the policyholders,
11 through the corporation, collect and control funds
12 which are used.

13 I. as investments upon which earnings accrue and
14 II. to purchase reinsurance and investments from
15 strangers in the reinsurance and investment
16 markets,

17 III. and such funds are owned and controlled by the
18 corporation as such which is subject, not to the
19 control of an individual member, but in all
20 likelihood, to not less than majority of the
21 members,

22 IV. and continuing members benefit by a gain arising
23 out of a retiring member's claim on the
24 accumulated assets of the corporation i.e. existing
25 members are the beneficiaries of the gains made
26 in the course of trade by their predecessors
27 in membership.

28
29
30



6. CONCLUSIONS

- A. There is no evidence that there is a trend to reduce expenditures by Government with a resulting drop in the level of taxation but rather the reverse,
- B. and no evidence that Income Tax will not continue to bear substantial part of the tax burden of Canada (It is difficult to say whether the post-war revenue system is definitely more equitable than the pre-war systems. All that one can be certain about is that the former relies more heavily on taxation of income, both personal and corporate, than did the latter. "The Taxation of Corporate Income in Canada" J. Richards Petrie p.13.).
- C. If this is so the effect of this present discrimination in taxation will tend to be accentuated.
- D. rendering Joint Stock Companies less able to compete,
- E. and all taxpayers, Joint Stock Corporations and individuals subject to a progressive increase in the burden of taxation.

. and finally the purpose of this submission may best be stated in the words of the late Mr. Justice Cardozo of the United States Supreme Court, who has said:

"WHAT WE ARE SEEKING IS NOT MERELY THE JUSTICE THAT



1
2 ONE RECEIVES WHEN HIS RIGHTS AND DUTIES ARE
3 DETERMINED BY THE LAW AS IT IS; WHAT WE ARE SEEKING
4 IS THE JUSTICE TO WHICH LAW IN ITS MAKING SHOULD
5 CONFORM." (The Growth of the Law). p.87.
6

7 A. Leslie Ham, Q.C.
8 Counsel

9 Canadian Underwriters'

10 Association.
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EXHIBIT "A"

MEMBERSHIP LIST

- GENERAL MEMBERS -

Acadia Insurance Co.
Aetna Insurance Co.
Agricultural Insurance Co.
Alliance Assurance Co. Ltd.
Alpina Insurance Co. Ltd.
American National Fire Ins. Co.
Anglo-Scottish Insurance Co. Ltd.
Atlas Assurance Co. Ltd.
Baloise Marine Insurance Co. Ltd.
Beaver Insurance Co.
Boston Insurance Co.
British American Assurance Co.
British Canadian Insurance Co.
British Crown Assurance Corp. Ltd.
British Empire Assurance Co.
British Law Insurance Co. Ltd.
British Northwestern Insurance Co.
British Oak Insurance Co. Ltd.
British Traders' Insurance Co. Ltd.
Caledonian Insurance Co.
Caledonian-Canadian Insurance Co.
Canada Accident and Fire Assurance Co.
Canada Security Assurance Co.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Exhibit "A" - 27

- 1 Canadian Equity Insurance Co.
- 2 Canadian Pioneer Insurance Co.
- 3 Canadian Surety Co.
- 4 Car & General Insurance Corp. Ltd.
- 5 Century Insurance Co. Ltd.
- 6 Citadel Insurance Co. of Canada Ltd.
- 7 Commercial Union Assurance Co. Ltd.
- 8 Commonwealth Insurance Co.
- 9 Continental Insurance Co.
- 10
- 11 Eagle Star Insurance Co. Ltd.
- 12 Employers' Liability Assurance Corp. Ltd.
- 13 Essex & Suffolk Insurance Co. Ltd.
- 14
- 15 Fidelity & Casualty Co. of New York
- 16 Fidelity Insurance Co. of Canada
- 17 Fidelity-Pheonix Insurance Co.
- 18
- 19 General Security Insurance Co.
- 20 Glens Falls Insurance Co.
- 21 Globe Indemnity Co. of Canada
- 22 Granite State Insurance Co.
- 23 Great American Insurance Co.
- 24 Guardian Assurance Co. Ltd.
- 25 Guardian Insurance Co. of Canada
- 26 Guildhall Insurance Co. Ltd.
- 27
- 28 Hanover Insurance Co.
- 29 Hartford Accident & Indemnity Co.
- 30



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Exhibit "A"-28

- 1
- 2 Hartford Fire Insurance Co.
- 3 Hudson Bay Insurance Co.
- 4
- 5 Imperial Guarantee & Accident Insurance Co. of Canada
- 6 Imperial Insurance Office
- 7 Insurance Corporation of Ireland Ltd.
- 8
- 9 Law, Union & Rock Insurance Co. Ltd.
- 10 Legal & General Assurance Society Ltd.
- 11 Liverpool & London & Globe Insurance Co. Ltd.
- 12 Lombard Insurance Co. Ltd.
- 13 London Assurance
- 14 London-Canada Insurance Co.
- 15 London & County Insurance Co. Ltd.
- 16 London Guarantee & Accident Co. Ltd.
- 17 London & Lancashire Guarantee & Accident Co. of Canada
- 18 London & Lancashire Insurance Co. Ltd.
- 19 London & Scottish Assurance Corp. Ltd.
- 20
- 21 Maryland Casualty Co.
- 22 Merchants' Marine Insurance Co. Ltd.
- 23 Motor Union Insurance Co. Ltd.
- 24
- 25 National Union Fire Insurance Co.
- 26 New Hampshire Insurance Co.
- 27 New India Assurance Co. Ltd.
- 28 New York Underwriters Insurance Co.
- 29 New Zealand Insurance Co. Ltd.
- 30 Niagara Fire Insurance Co.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Exhibit "A" - 29

- 1 North British & Mercantile Insurance Co. Ltd.
- 2 North River Insurance Co.
- 3 Northern Assurance Co. Ltd.
- 4 Norwich Union Fire Insurance Society Ltd.
- 5
- 6 Occidental Fire Insurance Co.
- 7 Ocean Accident & Guarantee Corp. Ltd.
- 8 Old Colony Insurance Co.
- 9 Olympic Insurance Co.
- 10 Orion Insurance Co. Ltd.
- 11
- 12 Pacific Coast Fire Insurance Co.
- 13 Palatine Insurance Co. Ltd.
- 14 Patriotic Assurance Co. Ltd.
- 15 Pearl Assurance Co. Ltd.
- 16 Pearl Underwriters Agency of the Pearl Assurance Co. Ltd.
- 17 Phoenix Assurance Co. Ltd.
- 18 Phoenix Insurance Co. of Hartford, Conn.
- 19 Planet Assurance Co. Ltd.
- 20 Prudential Assurance Co. Ltd.
- 21
- 22 Quebec Fire Assurance Co.
- 23 Queensland Insurance Co. Ltd.
- 24
- 25 Railway Passengers Assurance Co.
- 26 Reliance Insurance Co. of Canada
- 27 Reliance Insurance Co. of Philadelphia
- 28 Reliance Marine Insurance Co. Ltd.
- 29 Rochester Underwriters Agency of the Great American
- 30 Insurance Co.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Exhibit "A" - 30

- 1
- 2 Royal Insurance Co. Ltd.
- 3 Royal Exchange Assurance
- 4 Royal Scottish Insurance Co. Ltd.
- 5
- 6 St. Lawrence Underwriters Agency of the Western
7 Assurance Co.
- 8 St. Paul Fire & Marine Insurance Co.
- 9 St. Paul Mercury Insurance Co.
- 10 Scottish Insurance Corp. Ltd.
- 11 Scottish Metropolitan Assurance Co. Ltd.
- 12 Scottish Union & National Insurance Co.
- 13 Sea Insurance Co. Ltd.
- 14 Security National Insurance Co.
- 15 Societe Nationale d'Assurances (National Insurance Society)
- 16 South British Insurance Co. Ltd.
- 17 Sun Insurance Office Ltd.
- 18
- 19 Tokio Marine & Fire Insurance Co. Ltd.
- 20 Travelers Indemnity Co.
- 21 Travelers Insurance Co.
- 22
- 23 Union Assurance Society Ltd. of London
- 24 Union Insurance Society of Canton Ltd.
- 25 United British Insurance Co. Ltd.
- 26 United Canada Insurance Co.
- 27 United States Fidelity & Guaranty Co.
- 28 United States Fire Insurance Co.
- 29
- 30 Victoria Insurance Co. of Canada



ANGUS, STENHOUSE & CO. LTD.
TORONTO, ONTARIO

Exhibit "A" - 31

- 1 Washington General Insurance Corporation
- 2 Westchester Fire Insurance Co.
- 3 Western Assurance Co.
- 4 Westminster Fire Office
- 5 World Auxiliary Insurance Corp. Ltd.
- 6 World Marine & General Insurance Co. Ltd.
- 7 Yorkshire Insurance Co. Ltd.
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EXHIBIT "B"

POOL INSURANCE COMPANY

Incorporated October 5, 1940

Commenced business - January 1, 1941.

Officers

President	C. W. Gibbings	
Vice President	W. J. Parker	
Manager	R. M. Dancer	
Secretary	D. W. Richmond	
Directors	C. W. Gibbings	H. B. Sneath
	W. J. Parker	G. G. Jamieson
	N. Malm	L. A. Boileau
	T. G. Bobier	A. J. Macpherson
	G. L. Harrold	

Shares authorized - 5000 @ \$10. per share

Shares subscribed - 2500

Shareholders

Saskatchewan Wheat Pool	1175
Alberta Wheat Pool	675
Manitoba Pool Elevators	425
Chas. W. Gibbings - Regina	25
T. G. Bobier - Moose Jaw	25
L. A. Boileau - Regina	25
N. Malm - Vauxhall, Alta.	25
W. J. Parker - Winnipeg	25
H. B. Sneath - Elgin, Man.	25
A. J. Macpherson - Delia, Alta.	25



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Exhibit B - 33

1	G. L. Harrold - Lamont, Alta.	25
2	G. G. Jamieson - McAuley, Man.	25
3		<hr/>
4		2500
5		
6	"1962 Report filed with Superintendent of Insurance,	
7	Province of Manitoba".	
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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

34

EXHIBIT "C"

CANADIAN POOL AGENCIES LIMITED

Incorporated - June 30, 1928

Purpose - Insurance Agency business for Wheat Pools in
Manitoba, Saskatchewan and Alberta.

Officers

President	Chas. W. Gibbings	
Secretary	D. W. Richmond	
Manager	R. M. Dancer	
Directors	C. W. Gibbings	H. B. Sneath
	W. J. Parker	G. G. Jamieson
	N. Malm	L. A. Boileau
	T. G. Bobier	A. J. Macpherson
	G. L. Harrold	

Shares authorized - 2000 @ \$10. per share

Shares subscribed - 2000

Shareholders

Saskatchewan Wheat Pool	664
Alberta Wheat Pool	663
Manitoba Pool Elevators	663
C. W. Gibbings - Regina	1
T. G. Bobier - Moose Jaw	1
L. A. Boileau - Regina	1
N. Malm - Vauxhall, Alta.	1
W. J. Parker - Winnipeg	1
H. B. Sneath - Elgin, Man.	1



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Exhibit "C" - 35

1		
2	A. J. Macpherson - Delia, Alta.	1
3	G. L. Harrold - Lamont, Alta.	1
4	G. G. Jamieson - McAuley, Man.	1
5	★ Victoria Elevator Ltd.	
6	1105 W. Pender St., Vancouver	1
7		
8		2000
9		
10	★ This share transferred from Alberta Wheat Pool	
11	during 1962.	
12		
13	"Return filed in Office of Provincial Secretary,	
14	Manitoba".	
15		
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EXHIBIT "D"

CANADIAN POOL AGENCIES LIMITED

FINANCIAL STATEMENT 1962

Agency Assets

Cash in Bank)	
Accounts Receivable)	119,002.33

Shareholders & Patrons Assets

Cash in Bank	2,884.27	
Receivables		
Agency funds	10,155.46	
Pool Ins. Co.	21,252.09	
Sask. Wheat Pool Loan	112,603.19	
Miscellaneous	1,898.20	
Furn. & Fixtures	2,043.16	150,836.37
		<hr/>
		269,838.70

LIABILITIES

Accounts Payable		119,002.33
Reserves & Dividends payable		110,836.37
Unearned Income		
Alberta Wheat Pool	5568.12	
Sask. Wheat Pool	11,285.06	
Man. Pool Elevators	3146.82	20,000.00
Stock 2000 @ \$10.		20,000.00
		<hr/>

269,838.70

"Return filed in the Office of the Provincial Secretary,
Manitoba."



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

SUBMISSION OF

Lionel E. Brittle,
R. R. No. 1,
St. Sauveur-des-Monts,
Terrebonne County,
P.Q., Canada
(Tel. Capital 7-2465)

The Royal Commission on Taxation,
P.O. Box 466, Correspondence
Ottawa, Ontario, Canada Reference 520-14-19

Gentlemen:

1) The following two suggestions are respectfully
submitted for the consideration of the Commission:

- a) that income tax returns of taxpayers of
sixty-five years or over be thoroughly
examined at the time of filing, and, if
necessary, reviewed or re-assessed within
six months of the date of filing, and that
they be not subject to review at the expir-
ation of this six-month period.
- b) that where expenses claimed are subject to
critical examination by the Department,
particularly in the case of unusual pro-
fessions or businesses, the final review be
made by an independent committee of experts
who are in a position to pass intelligent
experienced judgment.

2) To elaborate on paragraph 1 (a), above. In
most cases the age of sixty-five marks retirement when
earned income ceases or is considerably reduced. It



1 should be comparatively simple for the Department to
2 segregate income tax returns in the sixty-five or over
3 category and subject them to a sufficiently thorough
4 scrutiny so that a later review will not be necessary.

5 In my own case, I received a clearance from the
6 Department for my income tax returns for 1959, '60, and
7 '61, and then these returns were re-assessed for a further
8 \$970.80 in the fall of 1962. I protested and visited the
9 Department, but received no satisfaction concerning the
10 arbitrary cuts in my reported expenses.

11 On representation by a qualified tax accountant,
12 this was reduced to \$677.35, which was paid in full under
13 protest on January 28, 1963. As I am now practically
14 retired, it was necessary to borrow this money to satisfy
15 the Department.

16 I submit that those senior citizens who are
17 still paying income tax in this group of sixty-five or
18 over are entitled to the consideration suggested in the
19 foregoing.

20 3) To elaborate on paragraph 1 (b). May I submit
21 that, before business expenses are drastically cut or
22 disallowed by the Department, they be referred to a
23 competent authority, and that some system be instituted
24 to prevent the high-handed practice of arbitrary cuts
25 without reason.

26 It is not my intention, at this time, to burden
27 your Commission with too many details, but I am able to
28 produce documentary evidence and can quote chapter and
29 verse to support my statements. One glaring example in
30 my 1961 re-assessment is that my donations for that year



1 to The Church of Saint Francis of the Birds in St. Sauveur,
2 for which I naturally hold receipts and amounting to
3 \$160.45, has not been allowed.

4 In my business it has been necessary in the past
5 to incur certain expenditures, principally under the
6 heading of travel, to secure new business and it is often
7 that the expenditures are incurred a year or more before
8 the result is reflected in income. I do not know if the
9 Department has a ruling that expenses may not exceed a
10 percentage of the income regardless of the expenditures,
11 but this would seem to be the case.

12 4) While I have purposely kept this submission as
13 brief as possible, I would be more than willing to
14 elaborate on these two points at the convenience of the
15 Commission.

16 Respectfully submitted,

17 (signed)

18 Lionel E. Brittle
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ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

MONTREAL

P. Q.

BRIEFS

VOLUME No.:

DATE:

6A April 23, 1963

OFFICIAL REPORTERS

ANGUS, STONEHOUSE & CO. LTD.

BOARD OF TRADE BLDG.

11 ADELAIDE ST. W.

TORONTO

364-5865 364-7383



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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6 MEMORANDUM

7 TO THE

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9 ROYAL COMMISSION ON TAXATION

10
11 SUBMITTED

12 BY THE

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14 TOILET GOODS MANUFACTURERS ASSOCIATION
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20 MARCH 1963.
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MEMORANDUM OF TOILET GOODS MANUFACTURERS ASSOCIATION

SUMMARY

The Toilet Goods Manufacturers Association (Appendix A - Association address, representatives p.1, objects p. 2, membership by-laws p. 3, statistics p. 4, products p. 5, members p. 6), draws the following conclusions from its review herein of the excise tax imposed under the Excise Tax Act:

- (a) The tax has been levied with little regard for generally accepted principles of taxation in that successive governments have not aimed at equity between industries.
- (b) The decision as to what commodities shall be taxed is in danger of becoming based on tradition, not reason; a 'salt-tax' attitude in excise tax policy-making may exist.
- (c) Manufacturing will benefit from more planning in excise taxation: the toilet preparations industry in particular has long been burdened, and should be relieved.

The recommendation of this Association is that the Commission should recommend that excise tax be removed from 'cosmetics' as defined in the Act, and that any revenue loss be taken up in the general sales tax.

INTRODUCTION

1. The Royal Commission on Taxation has a task of great breadth. This Association believes that each participant can best help by offering what he or it knows best; that an industry's contribution should be on



1 industry problems, unless it has special facilities for
2 tax study. Others, better equipped to make general
3 studies and report upon them will doubtless do so. Thus
4 we limit ourselves herein to the prime tax problem of our
5 members.

6 2. This memorandum on the Excise Tax Act touches
7 upon the following matters referred to in P.C. 1962-1334:

- 8 . the distribution of burdens;
- 9 . needs of changes for clarity, simplicity
10 and effectiveness;
- 11 . effects on living standards, industrial
12 productivity and growth;
- 13 . anomalies and inequities;

14 DISTRIBUTION OF BURDENS

15
16 3. In reviewing presentations of excise tax
17 legislation one finds that expediency is very evident
18 (Appendix B - Statements of Finance Ministers) while
19 serious planning is not. The effect of the lack of
20 a plan over many years has been a haphazard spattering
21 of the tax, rather than a distribution, (Appendix C -
22 (Part One) List of goods so taxed 1915-1963.). Most
23 of the excises have been removed, but the remainder seem
24 more durable than the process of selection would justify.
25 Principles of taxation (Appendix D - Short reference to
26 principles) are ignored as between industries, con-
27 venience being paramount, apparently. Selective sales
28 taxes may be here to stay, despite the fact that they
29 inevitably offend principles of fair play. But should
30 not efforts be made to keep unjust effects to a minimum?



4. Great administrative ingenuity and effort is lavished on achieving fairness within the burdened industries. But there has been no apparent attempt by policy makers to distribute the excise tax burden fairly among products or industries. The legislative tendency is to tighten the hold on the remaining few (Appendix C (Part Two) Goods now so taxed) instead.

5. This increased 'efficiency' in our case followed a unique beginning: our goods were defined in a basket definition (Appendix E - Definition of 'cosmetics') - the commodity tax as applied to 'cosmetics' is an industry levy, punitive of the entire field of manufacture. (The definition describes the whole output of our member companies.)

6. Our industry has been continuously taxed for 30 years in this way. We hope the casual following of precedents by successive governments does not indicate a belief that such primitive methods can solve today's economic riddles. Latterly, decisions on what is to be excisable have rarely been made between emergencies. We suggest it would be a monstrous injustice if this taxation became based on tradition or inertia, (Appendix B - heading "conclusion").

CLARITY, SIMPLICITY AND EFFECTIVENESS

7. The administration of the tax requires rather elaborate administrative rulings, and Part IV of the statute ('cosmetics' etc.) is open to many of the criticisms of sales tax made in 1956 by the Sales Tax Committee, particularly: the lack of a statutory



1 definition of selling price; need for an adequate and
2 inexpensive procedure for appeal to an appeal body;
3 desirability of replacement of some of the Minister's
4 discretions. Action based on the recommendations made
5 thereon would be desirable for certainty in both taxes,
6 and would reduce the complexity of administration.

7
8 EFFECTS ON LIVING STANDARDS, INDUSTRIAL PRODUCTIVITY
9 AND GROWTH

10 8. The amount of the excise tax is of course
11 part of the price structure of the 'cosmetics' on which
12 provincial (and in Quebec at least, provincial and
13 municipal) sales taxes are levied. Since nearly every
14 Canadian family is touched, the regressive effect of
15 this tax is perhaps spread as wide as one could scatter
16 it in Canada, and the regressive result of the provincial
17 and municipal direct levies is aggravated.

18 9. It is unfortunate that 'cosmetics' fit the
19 ignoble theory and history of excises - the tax "tests
20 the prosperity of the poor", since the goods are among
21 those most widely consumed. These products are part of
22 the Canadian living standard, whether or not they are
23 regarded as necessities. (One concerned with this tax
24 usually notes that mink coats or yachts are not so taxed
25 while many of his household goods such as shaving soap
26 and baby powder are excisable). In any case, the
27 'essential-ness' of goods may vary from generation to
28 generation. What is always essential to Canadians,
29 however, is secondary industry.

30 10. Everyone agrees that Canada should nurture



1 and develop manufacturing. The present taxation of our
2 entire industry production by this extra manufacturer's
3 sales tax is scant encouragement. And our business is
4 most sensitive; the excise tax puts our members so close
5 to the critical point that slight changes in administra-
6 tion immediately affect manufacturing policy, (Appendix
7 F - Example).

8 11. We predict that government adoption of our
9 recommendation would result in growth. It was once
10 argued that tax policies could not foster healthy
11 natural growth in an industry. But taxation can impede
12 growth; this is believed to be beyond dispute. If our
13 members' products were freed from the 10% excise tax
14 plant expansion would no longer be so inhibited. Nor
15 would the manufacture of products not now made in
16 Canada, (Appendix G - Short discussion). At present,
17 the extra 10% tax is a factor frequently causing a
18 not-worth-the-risk decision on questions of expansion.

19 12. Implementation by the government of the
20 recommendation made below would surely head our members
21 towards what must be a national objective - the
22 enlargement of Canadian manufacturing and production.

23 ANOMALIES AND INEQUITIES
24

25 13. What our members regard as the haphazard
26 nature of the tax and a somewhat casual policy attitude
27 towards it have produced both anomalous situations and
28 inequities, (Appendix H - Examples).

29 14. It is noteworthy also that no government has
30 taken into account the increase in domestic manufacture



relative to imports in our industry since this tax was created, (Appendix I - Imports; domestic manufacture). That is surely a factor which should be considered in imposing or continuing excises.

RECOMMENDATION

15. It is recommended that the Commission should consider recommending that the excise tax be removed (Appendix J - Amendments involved) from the 'cosmetics' defined in s. 2(1) (a) and in s.2 of Schedule I of the Excise Tax Act, and that any revenue so lost be taken up under the general sales tax.

We wish the Royal Commission every success in its important work.

TOILET GOODS MANUFACTURERS ASSOCIATION.

Montreal, P.Q.

March 1963.



APPENDIX A

1.

PARTICULARS OF THE TOILET GOODS MANUFACTURERS
ASSOCIATION WITH REGARD TO INFORMATION REQUIRED BY THE
ROYAL COMMISSION ON TAXATION.

ADDRESSES:

(a) c/o Mr. K. J. Eccles,
President,
Roy C. Lewis (1959) Limited,
809 William Street,
Montreal 3, P.Q.

(b) 282 Eglinton Avenue East,
Toronto 12, Ontario.

(c) 466 Kent Street,
Ottawa, Ontario.

PERSONS APPEARING AT THE HEARING AT MONTREAL, P.Q.

APRIL 1963.

Mr. K. J. Eccles,
President,
Toilet Goods Manufacturers Association,
President,
Roy C. Lewis (1959) Ltd.,
809 William Street,
Montreal 3, P.Q.



APPENDIX A - 2.

Mr. Ivan Phelan,
Member of Taxation Committee -
Toilet Goods Manufacturers Association,
Comptroller,
Avon Products of Canada, Limited,
P. O. Box 8000,
Montreal 3, P.Q.

Mr. S. A. Gillies,
Executive-Director,
Toilet Goods Manufacturers Association,
466 Kent Street,
Ottawa 4, Ontario.

EXPERT WITNESSES

It is not proposed to request that expert witnesses be heard by the Commission in connection with this memorandum.

PURPOSES OF THE ASSOCIATION

These are best stated by quoting the object clauses of the Association letters patent, as amended: -

- "(a) to foster the manufacture of fine quality personal care and cosmetic products;
- (b) to foster the truthful advertising and promotion of such products;
- (c) to foster a justified reputation of



respect for the Toilet Goods Industry and Association in the eyes of the public and governments based on the high standards of the products, scientific knowledge, promotions and the actions of the industry towards economic, community and national affairs;

- (d) to promote feelings of mutual respect, goodwill and harmony and better acquaintance among members;
- (e) to prevent unbusiness-like methods in the said manufacturing industry;
- (f) to encourage more frequent personal contact of such manufacturers through the meetings of the Corporation for the building of greater confidence among members;
- (g) to favour action in matters affecting the general interest of the members and to act in support of any member or members being in need of aid."

REQUIREMENTS FOR MEMBERSHIP

The by-laws of the Association provide, inter alia:

PART I - MEMBERSHIP

1. Membership shall be divided into the following classes: Active, Associate and Honorary.



2. Active Membership shall be confined to individuals, partnerships, or companies engaged in the manufacture or sale of toilet waters, perfumery or toilet goods of all kinds, providing, however, that such products are made or packaged in Canada and providing that a retail merchant who has no private brand shall not be eligible for membership.
3. Associate Membership shall be confined to individuals, partnerships or companies who manufacture or deal in materials or supplies used by manufacturers of toilet goods or perfumers and to those whose business is allied to the business of manufacturing or selling toilet goods or perfumes.
4. Honourary Membership may be conferred by resolution of the directors or by resolution adopted at a general meeting of the membership upon any individual who has been actively engaged in furthering and promoting the interests of the Association or of the toilet goods industry.

PART II - ELECTION TO MEMBERSHIP

9. (a) Applications for election to membership shall be submitted for approval to the members of the Executive Board residing in the Division in which the applicant's principal place of business in Canada is situated.
- (b) A majority vote of the members of the Executive



board residing in the Division in which the applicant has his principal place of business in Canada shall be sufficient for the purpose of electing the applicant to membership.

PRINCIPAL STATISTICS OF THE INDUSTRY

The Toilet Goods Manufacturers Association is the trade society of Canadian manufacturers of products for the care of the person.

D.B.S. lists 84 "establishments" whose main product is of this class, (D.B.S. "Manufacturers of Toilet Preparations 1960" at Table 1.B. For 1960; the basis for this and other figures from the D.B.S. report was different from that used in prior years. A change in the standard industrial classification was made by D.B.S. for 1960. Some firms previously classified under other industry headings were moved to toilet preparations and vice versa. Thus, for comparison with prior years, totals converted to the 1960 basis should be used, rather than the figures published for those prior years. The report for 1961 has not yet been published.) We number 78 active members.

Official figures do not give a complete picture of our supply houses, (D.B.S. as in Note (1) at Table 1A. This shows the cost of raw materials but does not fully indicate the diversity of our suppliers, including the printing, publishing, film, glass, base metals, plastic, and other industries whose welfare is affected by ours.



Table 4 thereof shows many other industries of which we are good customers.) We have 74 associate members, manufacturers of supplies, a diverse group of widespread value to the economy.

The following data are from groups which produce toilet preparations:

- Those for whom it is the main product (herein called "our industry").

- Those for whom it is a secondary product.

Some of these are our members also.

In 1960, Canada's production of these goods was from: (Computed from D.B.S. figures on the three classifications):

- "our industry", ----- 74%

- soap manufacturers ----- 17%

- medicinal industry ----- 9%

- what is called in this

Appendix "all industries" ----- 100%

EMPLOYMENT

In 1960 the average number of Factory personnel in "our industry" as defined above was 2636, (D.B.S. As in Note (1) Table 1B.) A conservative estimate of the number of non- production persons deriving a livelihood from the industry would be 25,000, as follows:

sales agents

wholesale distributors



advertising personnel

demonstrators

At factory selling prices the 1960 output of toilet preparations in "all industries" was \$67,200,300 (D.B.S. As in Note 1 Table 1B) for the calendar year.

The 10% Excise Tax on toilet preparations from "all industries" yielded \$8,900,000.00 in the fiscal year ending March 31, 1962, (Budget Papers re Budget of 1962-63 tabled April 9, 1962 p. 108. "Estimated 1961-62"). We deduce from this that for such period the tax was levied upon prices totalling \$107,690,000 (11/10 of \$8,900,000., as both taxes are levied on the same price level).

In the same fiscal year, the Sales Tax, including the Old Age Security Tax portion, must have totalled about \$9,790,000.00 from "all industries".

INDUSTRY PRODUCTS

The following is an abbreviated list of the classes of products of our industry:-

Baby Lotions

Baby Oils

Baby Powder

After Shave Lotions

Mens Talc

Other Shaving Preps. (Including After

Shave Septics, Beard Softeners, etc.)

Pre-Shave Products

Shaving Cream - Lather.



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APPENDIX A - 8.

1	
2	Shaving Cream - Brushless
3	Shaving Cream - Aerosol
4	Shaving Cream
5	Shaving Soap (Cakes, Sticks, etc.)
6	Dentifrice - Aerosol
7	Dentifrice - Liquid
8	Dentifrice - Paste
9	Dentifrice - Powder
10	Denture - Adhesives
11	Denture - Cleansers
12	Mouthwashes (Oral Antiseptics)
13	Cream Cleansing
14	Cream Hormone
15	Cream Moisturising
16	Cream Night
17	Cream Other Cosmetic
18	Lotions Face and Body
19	Eyebrow Pencil
20	Eye Shadow
21	Foundation - Cream
22	Foundation - Liquid
23	Lipsticks
24	Make-up Base - Cake
25	Make-up Base - Cream
26	Make-up Base - Liquid
27	Mascara
28	Powder Face - Compressed
29	Powder Face - Loose
30	Rouge



1 Bath Oils
2 Bath Salts
3 Bubble Bath
4 Colognes (except Solid) and Toilet Waters
5 Colognes Solid
6 Colognes and Toilet Waters Aerosol
7 Perfumes
8 Powder - Dusting
9 Powder - (Excl. After Shave Talc) Talcum
10 Sachets - Skin
11 Sachets - Others
12 Depilatories (Personal)
13 Hair Medicaments
14 Hair Sprays (Aerosol Fixatives)
15 Hair Tonics and Dressings - Female
16 Hair Tonics and Dressings - Male
17 Home Permanents
18 Rinses, Tints and Dyes
19 Shampoos - Medicated
20 Shampoos - Soap
21 Shampoos - Soapless
22 Others
23 Lotions Hand - Liquid
24 Lotions Hand - Solid
25 Nail Polish and Enamel
26 Nail Polish Remover
27 Other Manicuring Preparations
28 Deodorants (Personal) and Anti-Perspirants-
29 Cream, roll-on, Solid, Spray
30



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APPENDIX A - 10

Acne Aid Products, Personal Insect Repellents
Sunscreen Preparations

MEMBERSHIP LIST

Active Members

Aerocide Dispensers Limited	Rexdale
Alberto-Culver of Canada, Ltd.	Oshawa
Elizabeth Arden of Canada Limited	Toronto
Avon Products of Canada, Limited	Montreal
Harriet Hubbard Ayer Sales, Ltd.	Toronto
Beauty Counselors of Canada, Ltd.	Windsor
Beecham Products Limited	Weston
Parfumerie Bellefontaine Ltee.	Montreal
Biggs Dominion Sales Ltd.	Toronto
Hazel Bishop of Canada Limited	Toronto
Bristol-Myers Company of Canada Limited	Toronto
G. F. Bullock Limited	Toronto
Canada Drug Company	Montreal
Canada Packers Limited	Rexdale
Carter Products N.S.Inc.	Toronto
Charles of the Ritz of Canada Limited	Montreal
Chemway (Canada) Limited	Ste. Therese
Chesebrough-Pond's (Canada) Ltd.	Markham
Clairol Inc. of Canada	Toronto
The Clifton Co. Limited	Toronto
Colgate-Palmolive Limited	Toronto
Connecticut Chemicals (Canada) Ltd.	Toronto
Coty (Canada) Limited	Montreal



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APPENDIX A - 11

1		
2	Crepault Agencies Limited	Montreal
3	Helene Curtis Limited	Montreal
4	Drug Trading Company, Ltd.	Toronto
5	Estee Lauder Cosmetics Limited	Toronto
6	Faberge Perfumes (Canada) Ltd.	Toronto
7	Max Factor & Company	Scarborough
8	Fairbanks Soap Company Ltd.	Toronto
9	Familex Products Limited	Montreal
10	Fuller Brush Co., Limited	Burlington
11	Gillette of Canada Limited	Montreal
12	Harper Method (Canada) Limited	Niagara Falls
13	Helfrich Laboratories of Canada Ltd.	Scarborough
14	Herdt & Charton, Inc.	Montreal
15	Richard Hudnut Co. Limited	Toronto
16	John A. Huston Company Limited	Toronto
17	The Andrew Jergens Company Limited	Perth
18	Johnson & Johnson Limited	Montreal
19	Kolmar of Canada Limited	Barrie
20	The Lander Company (Canada) Limited	Toronto
21	Lehn & Fink (Canada) Limited	Toronto
22	Lever Brothers Limited	Toronto
23	Roy C. Lewis (1959) Limited	Montreal
24	Luft-Tangee (Canada) Limited	Montreal
25	Malty Brothers Limited	Toronto
26	Mary Chess of Canada Limited	Montreal
27	Masson Agencies Limited	St. Lambert
28	The Mennen Company Limited	Toronto
29	Milwood (Distributors) Limited	Toronto
30	The Nestle-LeMur Co. (Canada) Ltd.	Toronto



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TORONTO, ONTARIO

APPENDIX A - 12

1	Nivea Pharmaceuticals Limited	Montreal
2	The Noxzema Chemical Company of Canada Ltd.	Toronto
3	Palmers Limited	Toronto
4	Parfumeries de Paris (Limitee)	Montreal
5	L. M. Parker Company (1959) Limited	Montreal
6	Private Brand Drug Ltd.	Toronto
7	The Procter & Gamble Co. of Canada Ltd.	Toronto
8	John Robert Powers Products (Canada) Ltd.	New York
9	Professional Pharmaceutical Corp.	Montreal
10	The W. T. Rawleigh Company, Ltd.	Montreal
11	Rayette (Canada) Limited	Toronto
12	Rexall Drug Company Ltd.	Cooksville
13	Helena Rubinstein Limited	Toronto
14	Shulton of Canada Limited	Don Mills
15	The Robert Simpson Company Limited	Toronto
16	Sterling Drug Ltd.	Aurora
17	Taylor Soaps-Perfumes Limited	Don Mills
18	Thayer Perfumer Limited	Scarborough
19	Thomas Supply & Equipment Co. Ltd.	Ottawa
20	Viant Limited	Montreal
21	J. T. Wait Company Limited	Montreal
22	Watkins Products, Inc.	Montreal
23	The J. B. Williams Company (Canada) Ltd.	La Salle
24	G. H. Wood & Co. Limited	Toronto
25	Yardley of London (Canada) Limited	Toronto
26		
27	<u>Associate Members</u>	
28		
29	All-Canada Radio and Television Ltd.	Toronto
30	Ampak Limited	Clarkson



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APPENDIX A - 13

1		
2	Anchor Cap & Closure Corporation	Toronto
3	Antoine Chiris Company, Inc.	New York
4	Armstrong Cork Canada Limited	Montreal
5	The Baker Advertising Agency Limited	Toronto
6	Boxcraft Limited	Montreal
7	British Leather Goods Inc.	Montreal
8	W. J. Bush & Co. (Canada) Limited	LaSalle
9	Calmar, Inc.	Cincinnati
10	Canada Foils Limited	Toronto
11	Canadian Advertising Agency Limited	Montreal
12	Canadian Alcolac Limited	Valleyfield
13	Canadylet-Closures	Barrie
14	Chatelaine Magazine	Toronto
15	Cockfield, Brown & Company Limited	Toronto
16	Collett-Sproule Boxes Limited	Scarborough
17	Commercial Alcohols Limited	Montreal
18	Consolidated Alcohols Limited	Toronto
19	Consolidated Bottle Company Limited	Toronto
20	Consumers Glass Company, Ltd.	Ville St.Pierre
21	Crown Cork & Seal Co. Limited	Toronto
22	Frank E. Dempsey & Company Ltd.	Toronto
23	Desmond-Hall Limited	Montreal
24	Dodge & Olcott of Canada Ltd.	Toronto
25	Dominion Glass Company Limited	Montreal
26	Dominion Paper Box Company Limited	Toronto
27	Dow Corning Silicones Limited	Downsview
28	The T. Eaton Company Limited	Toronto
29	Emery Industries (Canada) Limited	London
30	The Fielder Paper Box Company Limited	Toronto



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APPENDIX A - 14

1	Firmenich of Canada, Limited	Toronto
2	Florasynth Laboratories (Canada) Ltd.	Montreal
3	Fritzsche Brothers of Canada (Limited)	Toronto
4	Gazette Printing Company (Limited)	Toronto
5	Givaudan-Canada Limited	Toronto
6	Eric H. Hardman Limited	Brantford
7	Hi-Lustre Limited	Perth
8	Hinde and Dauch Limited	Toronto
9	Holway Paper Boxes Limited	Toronto
10	International Flavors & Fragrances	Toronto
11	A. E. Long & Company Limited	Montreal
12	McKim Advertising Limited	Toronto
13	Modern Containers Limited	Scarborough
14	Montebello Metal Limited	Montebello
15	Murray Printing & Gravure Limited	Weston
16	A. C. Nielsen Company of Canada Limited	Don Mills
17	Norda Limited	Toronto
18	Norman, Craig & Kummel (Canada) Limited	Toronto
19	Compagnie Parento Limited	Scarborough
20	Plax Canada Limited	Toronto
21	Polak's Frutal Works, Inc.	Toronto
22	Precision Valve Corporation	Scarborough
23	Prestige	Montreal
24	The Reader's Digest Association (Canada) Ltd.	Montreal
25	Reliance Chemicals Limited	Montreal
26	Rolph-Clark-Stone-Benallack, Limited	Montreal
27	Ronalds - Reynolds and Company	Montreal
28	Schaefer-Ross (Canada) Limited	Toronto
29	Seeley & Co. (Canada) Limited	Toronto
30		



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TORONTO, ONTARIO

APPENDIX A - 15

1	Spitzer, Mills & Bates, Limited	Montreal
2	Sun Tube of Canada Limited	Ottawa
3	Syntomatic Corporation	New York
4	The Telfer Paper Box Co. Ltd.	Scarborough
5	Tennant Smith Limited	Toronto
6	J. Walter Thompson Company Limited	Toronto
7	Thompson Paper Box Co. Limited	Toronto
8	United-Carr Fastener Company of Canada Ltd.	Hamilton
9	Van Dyk & Company, Inc.	Belleville
10	Albert Verley & Company	Linden
11	Vickers & Benson Ltd.	Toronto
12	Wagner Signs Limited	Toronto
13	Weekend Magazine/Perspectives	Montreal
14		
15	<u>Honourary Members</u>	
16		
17	Mr. J. H. Andrews	Montreal
18	Mr. H. S. Garlick	Willowdale
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APPENDIX B

1.

Expediency is implicit in Budget Speeches, so far as
the excise tax is concerned: -

".....complaints from hospitals and
producers of proprietary medicines and
pharmaceutical preparations rebates
..... reduction to the rate which applied
prior"

(Hon. Sir H. Drayton, May 9, 1921)

"..... beetroot sugar tax the trade
has complained; no revenue has come to us
....."

"..... (after stating the tax on soft
drinks will be removed)(.... by
taxing carbonic acid gas) we will get
our money to the same extent and with less
trouble"

(Hon. W. Fielding, May 11, 1923)

"..... in order to prevent the falling off
in revenue now obtained from the tax on
matches, to impose a new tax of
20% on cigarette lighters"

(Hon. E. Rhodes, March 22, 1935)

"..... (tax on moving picture theatre
tickets) there are many other
amusements legitimately taxed, but
unfortunately the problems of administering



..... amusement tax are very great"

(Hon. J. Ilsey, April 29, 1941)

"..... the special taxes on soft drinks carbonic acid gas, candy and chewing gum have never been easy to collect. They have, however, been highly productive of revenue they seem to have been among the least popular of all the so-called "nuisance taxes" conclusion they can go."

(Hon. D. Abbott, March 22, 1949)

"There is at present an extra 5% tax on toilet soaps; for reasons which I shall not elaborate, chief among them the difficulty of drawing a clear line between toilet and laundry soaps, the tax has been very difficult to administer repealed"

"..... we must increase our revenues"

"For some years we have had a tax on cigarette papers and cigarette tubes ... this tax has become difficult to administer repeal"

(Hon. D. Abbott, April 10, 1951)

CONCLUSION:

The main raison d'etre of excises is



1
2 convenience. The text of this memorandum suggests
3 that convenience should nevertheless be balanced with
4 equity. Hope of such a balance seems slim under
5 present methods of shaping taxation policy.

6 The method as we understand it:

7 The Finance Minister acts on the advice he receives,
8 as to both revenue needs and sources. The Finance
9 Department's advice on sources is carefully tailored
10 so as not to conflict with the expert views of the
11 National Revenue Department, on administration. We
12 do not believe advisers in either Department can be
13 expected to recommend a sweeping change in approach
14 to excises (and perhaps what is advocated herein
15 amounts to that) because:

16 (a) It seems to us that each type of

17 adviser deems it his duty to advise
18 the least expensive course; adminis-
19 tration of changes likely costs more
20 than that of the status quo.

21 (b) We surmise that excises are attractive

22 to Ministers as a politically convenient
23 means of manipulating tax rates for excises
24 offend only small groups. The fewer
25 changes, the less widespread are the
26 offended groups.

27 (c) One forms the impression that excises

28 are a poor relation of sales tax, so to
29 speak, and that no one in authority cares
30 much. The serious study is spent on the



1
2 general sales tax.

3 (d) Doubtless the Finance Minister has more
4 pressing problems.

5 The result is the situation of which we
6 complain. As suggested we feel it is callous and unjust,
7 and that it is poor business.

8 This can be corrected, but only if excises are
9 abolished, or

10 (i) if it be recognized that taking the
11 cheapest excise is not the best tax
12 policy, if equity suffers, and

13 (ii) if the advice of an impartial body is
14 regularly sought by the government
15 as to sources of excise revenue, so
16 that departmental advisers will not
17 have conflicting duties.

18 We cannot suggest such a body, but the
19 Canadian Tax Foundation might be able to do so.

20 We suggest, with respect, that the Royal
21 Commission on Taxation has an opportunity for
22 recommendation of a genuine tax reform in this matter.
23 It is a rare opportunity for us to have a forum in
24 which to make the suggestion.



APPENDIX C

1.

PART ONE

The following have been excisable at various times
from the inception of the excise tax in 1915, including
those excisable at the present time:-

Circulation of Bank notes

Loan company income

Insurance company premiums

Telegrams

Rail and transportation tickets

Pullman berths etc.

Steamship tickets

Cheques

Postage

Freight

Proprietary or Patent Medicines

Perfumery (alcoholic)

Wines

Matches

Playing cards

Automobile

Records & Phonographs

Jewellery

Tea

Items of clothing

Ivory-handled cutlery

Cut glassware

Sporting goods

Plated ware

Lace, silk, velvet, etc.



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TORONTO, ONTARIO

APPENDIX C - 2.

- 1 Certain cigarette holders
- 2 Silver ash trays, etc.
- 3 Hunting clothes & knives
- 4 Silver household articles
- 5 Fur garments
- 6 Oriental rugs, etc.
- 7 Chandeliers, etc.
- 8 Pleasure boats & yachts
- 9 Candy
- 10 Firearms
- 11 Musical instruments
- 12 Toilet preparations (containing spirits, 1920)
- 13 Spirits & high wines
- 14 Ale, etc.
- 15 Tobacco
- 16 Sparkling wines
- 17 Fruit Juice, fortified
- 18 Sales, by manufacturers, wholesalers or on importation
19 (not to include foodstuffs) - 1920.
- 20 Share transfers
- 21 Moving picture films
- 22 Sales, of goods imported
- 23 Sales, manufacturer to retailer or consumer
- 24 Imports, by retailers or consumers
- 25 Lumber
- 26 Soft drinks
- 27 Receipts for money paid
- 28 Lumber imports
- 29 Cigars
- 30



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APPENDIX C - 3.

1	Cigarettes
2	Carbonic acid gas
3	Loans on securities
4	Money orders, etc.
5	Imports
6	Cigarette papers and tubes
7	Toilet preparations (1933)
8	Sugar
9	Malt
10	Glucose & grape sugar
11	Postal notes
12	Gold sold to the mint
13	Lighters
14	Transfers of interest in unincorporated businesses
15	Furs
16	Omnibus
17	Cameras
18	Radios and tubes
19	Tires
20	Tubes
21	Long distance telephone calls
22	Gasoline imports or production
23	Motion picture theatre tickets
24	Pari-Mutual bets
25	Telephone extensions
26	Admission to night clubs, etc.
27	Luggage
28	Clocks & watches
29	Jewellery, real or otherwise
30	



Articles of ivory or semi precious material
Chinaware, not for alimentary use
Ash trays, pipes, holders
Fountain pens
Candy
Chewing gum
Premiums on non-life policies of mutual companies, etc.
Exchange, foreign
Electric Appliances
Refrigerators
Outboard motors
Motorcycles
Coin & slot machines
Soaps, toilet
Exports of electricity

PART TWO

Of the foregoing, only the following are excisable
at the present time:-

Under Part IV. The Excise Tax Act.

Toilet preparations or cosmetics (since 1933).
Lighters (since 1935).
Coin operated amusement machines (since 1949).
Phonographs, radio receivers, etc. (since 1940).
Television receivers & tubes. (since 1953).
Pipes, holders & rolling devices (generally since
1942).
Cigars (since 1922).
Matches (since 1918)



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APPENDIX C - 5.

1
2 Clocks & watches (since 1942)

3 Articles of ivory or semi-precious materials (since
4 1942).

5 Jewellery (since 1942)

6 Cigarettes, tobacco (since 1942)

7 Under Part V

8 Playing cards (since 1918)

9 Wines (since 1915)

10
11 Under Part I

12 Insurance premiums other than marine

13 Under Part II

14 Exports of electricity
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APPENDIX D

The generally accepted principles referred to are the modern adaptation of Adam Smith's propositions - social equity, consistency with economic goals, ease of administrative and revenue adequacy. We believe the excise tax as it is in Canada fares badly under such an examination.

Successive Finance Ministers in defence of the tax, have cited the need for revenue. The adequacy, however, of excise revenue compared to administrative cost is doubtful:

Generally -

Excise tax revenue is about 5.5% of total tax revenues (Budget Papers, Tabled April 9, 1962 by the Minister of Finance, p. 108).

It has been argued (As noted by J. F. Due "The General Manufacturer's Sales Tax in Canada" - Canadian Tax Foundation, 1951, pp 17-18) that the sales tax is an alternative to higher income tax rates. We suggest this cannot be argued successfully about excise tax.

Specifically -

The revenue from the Excise Tax Act (estimated) for 1961 - 1962 (As in note 1) was

The General Sales Tax \$774 millions



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APPENDIX D - 2.

The Selective Sales Taxes (excises):

Cigarettes, tobacco, cigars	\$221.7 millions
Automobiles (removed in mid-year)	25.4 millions
Other, except 'cosmetics'	20.0 millions
'Cosmetics'	<u>8.9</u> millions
	<u>276</u> millions
TOTAL -----	1,050 millions

From these figures:

Excise revenue, including cigarettes, etc. is about
25% of the total.

Excise revenue, excluding cigarettes, etc. is about 5%
of the total.

Excise revenue, excluding cigarettes and automobiles
(now exempt) is about 2.6% of the total.

Excise revenue, 'cosmetics alone', is about 0.8% of the
total.

CONCLUSION: -

Revenue could instead come more adequately,
consistently, easily, and equitably from a
modest adjustment of Sales Tax rates - with
or without exempting tobacco products from
excise.



APPENDIX E

1.

The definition of "cosmetics" referred to is that in the Excise Tax Act and Schedule I (At s.2(1) (a) and at s.2 of Schedule I) thereto. The latter is the charging provision:-

"2. Articles, materials or preparations of whatever composition or in whatever form, commonly or commercially known as toilet articles, preparations or cosmetics, which are intended for use or application for toilet purposes, or for use in connection with the care of the human body, including the hair, nails, eyes, teeth, or any other part or parts thereof, whether for cleansing or restoring, and including shaving soaps and shaving creams, antiseptics, bleaches, depilatories, perfumes, scents and similar preparations."

We might summarize the history. First appearing in an amendment to Schedule I of the Special War Revenue Act, (now the Excise Tax Act) it was effective March 22, 1933. Only one change was made to it in the 30 years following - a comma inserted after "preparations or cosmetics" in the third line (By Geo. VI c. 30 s.7(I)).

The statute has been otherwise amended every year since 1933. Economic conditions of course changed greatly in the period. The definition is thus a rare tax



APPENDIX E - 2.

collector's item. It is said that the definition was somewhat hastily included in the budget resolutions practically on budget day in 1933.

The abolition of the tax on the "cosmetics" so covered is advocated herein. But in passing, these are some criticisms of the definition:

- . it is a catch-all for the toilet goods industry's products
- . making the tax an industry levy - not a commodity tax
- . civil servants have to legislate under it, inventing exemptions, for example. (Appendix H, "Anomalies" cites some instances.)
- . lines are not clearly drawn by express language, as they should be (e.g. "television receiving sets and tubes therefor" - s.5(b) of Schedule I - these words clearly describe commodities).

With clear statutory description of the taxable goods uncertainty and administration would diminish.

The commodities should be named. If they cannot be, they are not



1
2 suitable subjects. Our products
3 are too varied and numerous to be
4 individually named.

5 The present situation is an abuse
6 of the civil servant, and we
7 suggest, of the tax system.
8

9 What appears to be the origin story and later history
10 of this tax is consistent with out members' belief
11 that the excise tax on "cosmetics" is a haphazard,
12 casual, off-spring of the tax needs of depression days.
13 Indeed it does seem to have been conceived in inequity,
14 born in haste, and allowed to grow over-mature without
15 much parental attention.
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APPENDIX F

1.

The following is an instance of the effect on manufacturing policy of an administrative change:

(The situations contemplated by this ruling are history now, the 1959 amendment to the definition of "manufacturer or producer" having been since enacted. That amendment is now S.2(1) (aa) (11) of the Act.)

The ruling in question was set out in a letter to this association, signed for the Deputy Minister, dated May 9, 1955. It provided:

"The toilet preparations or cosmetics to which the new ruling applies, effective on and from May 2, 1955, but not retroactively beyond that date, are those that are manufactured in Canada and that are sold by the manufacturer thereof to any customer for marketing by the latter under his own trademark or trade name or under a label which bears his name with or without a statement indicating the goods to have been manufactured for him or to be distributed by him or under a label bearing his name but which does not state that he is the manufacturer.

The conditions surrounding the manufacture and sale of the goods that must be complied with if the manufacturer thereof is to be permitted to account for the sales and excise taxes on his sale price of toilet preparations or cosmetics that he manufactures and sells



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

APPENDIX F - 2.

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2 to any customer, whether the customer be another
3 manufacturer, a wholesaler or jobber, or a retailer, for
4 marketing by the customer under his own trade-mark or
5 trade name or under a label, such as mentioned already,
6 are as follows:

7
8 1. The goods must be manufactured according
9 to the manufacturer's own formula and not
10 be a formula or to specifications supplied
11 by the customer other than any specification
12 required to identify by colour, shade,
13 fragrance or other characteristic the
14 particular item that has been selected by
15 the customer from a range of items manu-
16 factured according to the manufacturer's
17 own formula that has been submitted to
18 the customer for selection by the latter
19 of that item of the range which has the
20 colour, shade, fragrance or other
21 characteristic that the customer desires
22 in the particular item he is purchasing.

23 2. All the materials required for the
24 manufacture and the packaging and
25 cartoning of the goods, as well as all
26 the labour and manufacturing skill must
27 be supplied by the manufacturer.

28
29 3. The manufacturer must not be restricted
30 by the customer in any way from selling



1
2 the identical product to other customers
3 for marketing by each of them under his
4 own trade-mark or trade name or under a
5 label such as mentioned already.

- 6
7 4. The goods when delivered by the manufacturer
8 thereof to the customer must be completely
9 manufactured, packaged and cartoned ready
10 for resale in the same condition and in the
11 same containers and cartons as received,
12 and unless the customer is a retailer who
13 resells the individual units directly to
14 users, the customer must resell and deliver
15 the goods in the same cartons in which he receives
16 them from the manufacturer, this in view of the
17 provisions of Section 23 (5) (2) of the
18 Excise Tax Act.

- 19 5. The sale of the goods by the manufacturer
20 must be, in fact, a sale at arm's length to
21 a bona fide independent purchaser and not
22 one where there is affiliation or inter-
23 relationship between the manufacturer of
24 the goods and the customer to whom he sells
25 them.

26
27 It must be emphasized that only in those instances
28 where all of the conditions enumerated already have been
29 complied with, will it be permissible for a manufacturer
30 of toilet preparations or cosmetics, with effect on an



from May 2, 1955, but not retroactively beyond that date, to account for the sales and excise taxes on his sale price of goods of his manufacture which he sells to any customer for marketing by the latter under his own trade-mark or trade name or under a label which bears his name with or without a statement indicating the goods to have been manufactured for or to be distributed by him or under a label bearing his name but which does not state that he is the manufacturer.

In any instance where the sale of the goods by the manufacturer thereof does not meet all of the conditions enumerated already the ruling outlined hereby will not apply."

COMMENT

This ruling was in force for some eleven months. The attraction of having the tax base at the lower level was such that a number of our members ceased to manufacture and jobbed out the manufacturing operation to custom laboratories or "private brand" houses. Some of the members, despite the reversal of the ruling, and the 1959 enlargement of the meaning of "manufacturer or producer", never did revert to their own physical manufacturing operations.

Accordingly, manufacturing in Canada suffered a set-back.



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TORONTO, ONTARIO

APPENDIX F - 5.

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We suggest the result indicates

(1) the sensitivity of the trade to the tax, and
that

(2) the sensitivity is because the 10% excise tax on
cosmetics squeezes manufacturers' margins to a
serious degree.



APPENDIX G

1.

"Our industry will expand following tax removal"

We firmly believe this. It is of course difficult to prove. But we have had cases in which the 10% excise tax was the compelling factor in decisions not to expand.

A significant part of the expansion which has occurred in our industry has been the result of changes within existing products lines, (by increasing the number of sizes, for example) rather than of diversification or production of new goods, or of the expansion of production capacity.

We are not different from other Canadian secondary manufacturing in respect of our need to increase production capacity, so as to lower costs.

Until runs are less short, costs will continue high, and exports consequently low.

But it is easier to see the solution in our case, than in many industries. We believe the increase can be achieved if more favourable tax treatment in this one respect (excise tax) opens the way.

As to exports:

Our members, of course, do not have to account for excise tax upon exported goods. But the Canadian costs of production are unfavourable in meeting



1
2 foreign competition. Tax removal would assist and
3 encourage plant expansion; the consequent drop in costs
4 will assist export marketing.

5
6 The factory labour content of our product
7 is relatively low. Thus our members' products should be
8 more able to compete abroad with the products of lower-
9 wage countries than at present.

10 Further, standards of living and comfort
11 are improving in nearly all countries. With these
12 improvements and "westernization" there comes
13 inevitably a demand for grooming and the goods for it.
14 It is a rising tide, if we can compete and ride upon it.

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APPENDIX H

1.

ADMINISTRATIVE RULINGS

- . Administrative rulings abound.
- . Some are favourable to us, easing rigidities.
- . Some are not.
- . The greatest oddity is the system itself -
which places a burden on the civil servant.
- . He is, so to speak, judge, jury, legislator,
as well as administrator (e.g. in rulings
on sale price), and without statutory
authority.
- . Between the statute and the administration,
some of the results: -

SOME ANOMALIES

- . Baby oil is taxed while pads soaked in baby
oil are not.
- . Toothpaste is taxed while toothbrushes are not.
- . Shaving soap is taxed while face soap is not.
- . Perfumery is taxed but sachets used for
perfuming clothing are not.
- . Baby powder is taxed, but baby soap is not.

SOME INJUSTICES

- . The fundamental complaint is in being
continuously taxed for 30 years, while so
many goods have been freed.
- . In the period since inception of the tax
excisable classes have aggregated some



APPENDIX H - 2.

93 in number (See Appendix C, Part One)
. Now there are but 16; 'cosmetics' are still
one of the number. (Appendix C, Part Two)
. This is patently unjust, it is submitted.

IMPARITY BY RULING

- . Additional excise tax results from the
combining of excisable goods in a wrapper
or package with non-excisable goods.
- . For us this creates a hardship - one not
suffered by any other industry.
- . We think it developed from legislation aimed,
not at us, but at another industry altogether.
- . And when, after a period of years (1933 to
1954; 1954 to 1959) this was suddenly
applied to cosmetics, an added and unforeseen
burden resulted.
- . That legislation was an amendment to the
Excise Tax Act (eff. April 7, 1964; and
it is now s. 22(2) (a). It reads as follows:
"(a) in calculating the sale price
of goods manufactured or produced
in Canada there shall be included
the amount charged as price for
or in respect of
(i) the wrapper, package, box, bottle
or other container in which the
the goods are contained,
and



APPENDIX H - 3.

(ii) any other goods contained in or
attached to such wrapper, pack-
age, box, bottle or other
container;"

. We believe this was primarily designed for taxation equity in the confectionery business, as it shortly followed a decision of the Exchequer Court that, in a premium package of chewing gum, the gum only, was excisable, and the wrapper, premium cards, etc., were not (The Queen vs. O-Pee-Chee Co. Ltd., 1954 Ex. C.R. 59.).

. Support for our belief is lent by this: The Department of National Revenue recognized the injustice of burdensome taxation for manufacturers of toilet goods who sold their regular excisable toilet goods in combination with other non-excisable goods (Example: A tube of toothpaste with a tooth brush attached), (or with goods not subject either to sales or excise taxes), (Example: Bath pellets are subject to both sales and excise taxes. The shower head is exempt under Schedule III.)

. We think that department felt the amendment was not intended for our manufacturers who "combined" fully manufactured goods. And we still believe that was not Parliament's intention.

. The rulings permitting continued proration preserved



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what we think is the equitable tax situation.

. Unfortunately, after the Act was further amended in 1959 in its Part relating to Sales Tax (To "Part VI. Consumption or sales tax". The amendment, effective April 10, 1959, added sub-para "v" to s.29 (1) (e), which thus reads; "29.(1) In this Part, (e) "producer or manufacturer" includes, (v) any person who wraps, packages, puts up in boxes, or otherwise prepares for sale, candy, chocolate, chewing gum or confectionery that may be classed as candy or substitute for candy, or cosmetics or pharmaceuticals, otherwise than in a retail store for the purpose of sale in such store exclusively and directly to consumers;"), the Department of National Revenue reversed those rulings. It thereafter refused to permit proration of either the sales tax or the excise tax.

. We do not believe the amendment to the definitions for sales tax should have affected our "combinations", "deals", "gift sets", for excise tax purposes. But it appears that such was the interpretation.

. As mentioned, we are the only sufferers. The reason; we are the only industry so affected which is subject to both sales and excise taxes.

. Since the 1959 amendment, manufacturers of only three classes of goods are denied proration of sales tax.

. Any manufacturer of goods other than of candy,



cosmetics and pharmaceuticals is still permitted to prorate tax on "combinations" or "sets".

. And because we are the only one of these three industries whose products are subject to excise tax, denial of proration of both that tax and the sales tax is a manifest injustice.

. A detailed example:

A company puts out a Baby Gift Box consisting of soap, baby oil and talcum all of its own manufacture plus a rattle purchased sales tax paid:-

Sale Price of set:

Net sale price, Baby Gift Box, per doz.	\$11.67
taxes included.	

Regular Sale Price of components:

Regular net sale price, soap, per doz.	\$4.167
----------------------------------------	---------

" " " " baby oil, " "	4.583
-----------------------	-------

" " " " talcum, " "	2.625
---------------------	-------

Cost of rattle, per doz. (sales tax

11/111 .0916)	.930
---------------	------

12.305

How taxed when proration existed:-

Apportionment of net sales price of Baby Gift Box for tax purposes and taxes payable per doz.

<u>Soap</u> 4167/12305 of \$11.67	\$3.95
-----------------------------------	--------

Sales Tax 11/111 of \$3.95	\$.3914
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APPENDIX H - 6.

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Baby Oil 4583/12305 of \$11.67 \$4.35

Sales tax 11/121 of \$4.35 \$.3955

Excise tax 10/121 of \$4.35 \$.3595

Talcum 2625/12305 of \$11.67 2.49

Sales tax 11/121 of \$2.49 .2264

Excise tax 10/121 of \$2.49 .2057

Rattle 930/12305 of \$11.67 .88

\$11.67

Sales tax payable \$1.0133

Excise tax payable .5652

Sales tax paid on rattle .0916

\$1.1049

Adding the above excise tax .5652

TOTAL TAXES PAYABLE UNDER PRORATION \$1.6701

How taxed under present requirements:-

Net sales price, Baby Gift Box, per doz.

taxes included \$11.67

Sales tax payable 11/121 or \$11.67 \$1.0609

Excise tax payable 10/121 of \$11.67 .9645

2.0254

Less credit for sales tax paid on rattle .0916

TOTAL TAXES PAYABLE UNDER EXISTING REQUIREMENTS \$1.9338



Unhappy result:-

Total tax on these innocuous and healthy goods is \$.26 greater per dozen, an increase of $15\frac{1}{2}\%$ in the tax payable, by reason of the excise tax on the soap and rattle, despite the credit now being given.

Inequity by contrast

- . One might contrast a ruling in effect for another industry.
- . It is common in the Food Industry, for a manufacturer to purchase or import a premium or prize sales tax paid and put it in the package as a promotional aid, e.g. a prize in a package of popcorn.
- . If our members did so
 - . the premium would be excisable
 - . the premium would bear sales tax
 - . no proration of either tax would be permitted.
- . Under date of May 1st, 1962 the following ruling was issued by the Department of National Revenue;

"The Department has reviewed the application of the sales tax to completely manufactured goods purchased or imported by manufacturers for use as prizes or premiums in packages of taxable goods of their manufacture.

Manufacturers will be required to continue to pay sales tax on their purchases or impor-



APPENDIX H - 8.

tations of fully manufactured prizes or premiums. However, effective March 1, 1962, manufacturers who package the prizes or premiums with products of their manufacture which are subject to sales tax and include them in the sale price of their manufactured goods and pay sales tax on the complete unit, may take credit for the amount of sales tax which they previously paid on the prizes or premiums at the time of purchase or importation. The credit may be deducted from the current sales tax liability in connection with the taxable goods which they manufacture.

The decision outlined in the previous paragraph applies only in those instances where the prizes or premiums are contained within the consumer or user package of the goods of the manufacturer's own production, e.g., a dish towel in a box of detergent or a prize in a package of popcorn. The decision does not apply to "onpack" or "off pack" premiums or deals where the sales tax may be computed by use of the proration method".

. As our members understand the effect of this ruling, it is

. that when such premiums are truly given away free, (i.e. no amount is "charged as price" for them - s.29(3) (a) (11), the whole of the



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APPENDIX H - 9.

1
2 sales tax previously paid on them is credited
3 back to the manufacturer, and so
4

5 . that in effect the ruling permits the
6 manufacturer to buy a promotional prize sales
7 tax free, in such a case.

8 . The foregoing does not bear directly upon the excise
9 tax upon 'cosmetics', but it may serve to indicate
10 a difference in treatment between industries.
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APPENDIX I

THE EXCISE TAX ON 'COSMETICS' HAVING REGARD TO THE RATIO OF CANADIAN MANUFACTURE TO IMPORTS

Historical Note:

For a time after the first excise taxes were imposed in 1915, the assignment of a base wavered somewhat uncertainly between the selling prices of manufacturer and retailer. Eventually the base settled to its present level. In 1920, the sales tax was introduced, first as a multiple stage levy, and in 1924 it became a general manufacturers' sales tax. By 1929 both appeared to be on the way out. The great depression reversed that trend. In 1933 'cosmetics' were added to the list of excisable items.

Official preoccupation throughout the whole 48-year period, (first with the base, and with administrative problems from lack of uniformity, next with the falling revenues of the depression days, and later with the revenue needs of 1939 - 1945) appears to have obscured the fact that a vast change had occurred in the origin of the 'cosmetics'.

At the time of the Armistice, imports threatened to predominate, but by the date Poland was overrun, 'cosmetics' had become a valuable domestic manufactory.

The ratios of Canadian production to imports



APPENDIX I - 2.

(1. Year	No. of Plants Reporting	Selling Value of Products	Imports
1919	16	\$1,108,000	\$ 972,445
1939	86	\$6,918,573	\$ 533,689
1960	84	\$67,200,300	\$2,705,188

Source: D.B.S., "Chemicals and Allied Products" for
1919 and 1939.

D.B.S., "Manufacturers of Toilet Preparations
1960" Tables 1B and 11.)

were roughly

1919 - 1 to 1

1939 - 14 to 1

and later 1960 - 20 to 1

Members of the industry feel that it has
continued to be treated somewhat as a 'second-class
citizen' in that the above manufacturing development
has not been recognized in tax treatment.



APPENDIX J

To implement what we recommend herein the following
amendments to the Excise Tax Act would be required:

- (1) Repeal of s. 2 of Schedule I
charging the tax on our products.
- (2) Repeal of s. 2(1) (a) defining "cosmetics",
which would become unnecessary.

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

MONTREAL

P. Q.

BRIEFS

VOLUME No.:

DATE:

6B April 23, 1963

OFFICIAL REPORTERS

ANGUS, STONEHOUSE & CO. LTD.

BOARD OF TRADE BLDG.

11 ADELAIDE ST. W.

TORONTO

364-5865 364-7383



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7 THE ROYAL COMMISSION ON TAXATION
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15 AVON PRODUCTS OF CANADA, LIMITED
16 MONTREAL
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TORONTO, ONTARIO

SUBMISSION TO

THE ROYAL COMMISSION ON TAXATION

SUMMATION

It is questionable whether a country as small as Canada in population can continue to support eight provincial retail sales tax agencies, as well as a federal administration collecting taxes on sales at the manufacturer's sales price level.

With uniform legislation in all provinces and an enabling federal act, it should be possible and certainly will be less of a burden from the viewpoint of either the retailer, wholesaler, manufacturer or tax collector, to substitute a federal sales tax at the retail level for the present manufacturer's sales tax.

AVON PRODUCTS OF CANADA, LIMITED



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

3.

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AVON PRODUCTS OF CANADA, LIMITED

Submission to

THE ROYAL COMMISSION ON TAXATION

PREAMBLE

Before proceeding with our submission, we wish to acknowledge the kindness of the Commissioners in permitting us to do so.

We do not represent any large association with a multitude of members; nor do we represent an industry whose activities repeatedly warrant headline attention in the financial pages of our newspapers. We are rather ordinary people with a business problem which, we feel, needs to be resolved. If it were of our own making we would quickly set about our own solution; but since it is not, then we must perforce seek a solution elsewhere. This has been up to now a search in vain.

However, the creation of this Royal Commission has given to us a unique opportunity at least to expose the problem for public scrutiny, a fact for which we are grateful. We are convinced that many industries engaged in the retail trade are equally affected and all must suffer from the same anachronism - a point we will prove in this brief.

The decision to submit this brief, therefore, has been motivated by three basic factors:

- (a) The existence in this country of two different bases for sales taxation (the manufacturers' sales



1 tax - federally, and the retail sales taxes -
2 provincially) and the offspring of this fact:
3 the existence of nine separately administered
4 systems of sales taxation;

5
6 (b) The recognition of the vital need for greater
7 revenue to be used for provincial and municipal
8 purposes and the corresponding and continuing
9 shift in taxation emphasis from federal to
10 provincial level;

11 (c) The growth of consumer goods industries in Canada
12 in recent years and specifically the very rapid
13 growth of the cosmetics and toiletries industry
14 engaged in direct selling (a term we shall explain).

15
16 The manufacturers' sales tax levied under the
17 Excise Tax Act had not been intended as a permanent
18 source of revenue, (Note 1 (For this and all succeeding
19 notes, please refer to Page 25)), and it has become
20 permanent only by the passage of time and for reasons
21 of fiscal or administrative expediency. Today, in the
22 context of new federal-provincial fiscal solutions (and
23 these are clearly only in the beginning stage), and of
24 the growth and diversity of Canadian consumer goods
25 manufacturing, the case against the present status quo is
26 unanswerable, at least from the businessman's point of
27 view.

28 It is submitted that the time is ripe, not for
29 the mere correction of anomalies and inequities existing
30 in the present legislation and its administration, but



1 for a new overall approach to sales tax, both federal
2 and provincial. We are not implying here that the
3 Commission can make recommendations on provincial taxes.
4 We simply accept the view of the Chairman of this
5 Commission that "a study of federal taxation cannot be
6 carried on in a vacuum isolated from the taxes levied
7 by the other governments of Canada." (Note 2)

8
9 This submission is the effort of one Canadian
10 manufacturer, and of necessity the emphasis in it is on
11 the specific problems involved in the application of the
12 manufacturers' sales tax to a company producing cosmetics
13 and toiletries and distributing them by way of direct
14 sales to consumers. There is no attempt to seek any
15 relief for one particular industry or to argue the case
16 from a narrow, one-sided point of view. To be sure, this
17 is a businessman's brief, but its framework is as broad
18 as the subject and we respectfully suggest that its
19 approach is forward-looking.
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FACTS ABOUT AVON

Avon is a household word in the land; certainly among the female population. It also means the largest and the fastest growing manufacturer of cosmetics and toiletries in Canada. The Company was incorporated under the federal Companies Act in 1924 as the California Perfume Company Limited; the name later being changed in 1939 to Avon Products of Canada, Limited. The head office and the manufacturing facilities of the Company are located in the Industrial Park of Pointe Claire near Montreal.

The new building comprising offices, manufacturing laboratory, packaging and shipping areas, in all over 250,000 square feet of space, was completed in 1962, the capital investment amounting to \$5,000,000. All Company merchandise is wholly manufactured in Canada with few relatively insignificant exceptions; similarly, nearly all materials are purchased from sources in this country. In 1962 the Company manufactured and distributed over 23,000,000 (Note 3) pieces of cosmetics and toiletries; during the same year aggregate purchases from suppliers of materials amounted to \$8,000,000. (Note 4)

Perhaps the most significant element of the Company operations is its traditional method of distribution; direct selling. This means simply: selling directly to the consumers through the efforts of Avon Representatives



1 numbering over 10,000 in Canada. These ladies are not
2 employees of the Company; they are independent sales
3 contractors, but they form a closely knit and well
4 organized sales system. The estimate aggregate earnings
5 by Avon Representatives in 1962 amounted to over
6 \$9,000,000. (Note 5)

7
8 The sales figure of the Company has increased
9 successively each year since it began its operations.
10 In 1962 the Company paid to the federal government over
11 \$2,300,000 (Note 6) in general sales taxes and special
12 excises levied under the Excise Tax Act. During the
13 same year the Company collected and paid to the
14 provincial governments levying sales taxes over \$1,000,000
15 (Note 7). These facts and figures are submitted to you
16 with full realization that the growth potential of Avon
17 in Canada is far from being exhausted. The growth in
18 the past has been great but the future holds even greater
19 promise for this type of industry and this type of
20 selling.

21 Direct selling in Canada, in the United States
22 and in many countries of Western Europe and South
23 America has become an established and very successful
24 means of distribution of consumer goods. In our view
25 this can only mean that this form of marketing is
26 particularly welcome and desirable especially in the
27 case of cosmetics and toiletries which can thus be
28 selected by the consumer in the personal atmosphere of
29 the home. Much more can be said of the principles of
30



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9.

1 direct selling or of the manner in which Avon carries on
2 its particular application of these principles. One
3 significant effect is worth emphasis: for the purposes
4 of federal sales taxes, Avon is a manufacturer and a
5 wholesaler in the eyes of the Department of National
6 Revenue and in the eyes of the administrators of
7 provincial levies we are considered as retailers, for
8 administrative convenience.



1 GENERAL CRITICISM

2
3 Economically speaking, the term "sales tax"
4 is really a misnomer. Whether this tax is applied at
5 the manufacturers' level, wholesalers' level or
6 retailers' level, it is ultimately borne by the consumer.
7 It is in fact a tax on consumption because under normal
8 circumstances it is shifted to the consumer by way of
9 increased prices (Note 8). However, the economic and
10 practical consequences of this tax depend in large
11 measure on the level at which the tax falls. These
12 consequences are of major importance particularly in a
13 federal country where tax jurisdiction is divided between
14 federal government and provincial governments. This
15 point will be elaborated upon further below; for the
16 present it is sufficient to say that the existence of
17 two distinct levels of taxation of consumer goods
18 (manufacturers' level - federally, and retailers' level -
19 provincially) is not sound economically and not sound
20 practically, and it is in respect of the latter view that
21 we, as businessmen, are here.

22 Many countries levy sales taxes today, but
23 only Canada and Finland use the manufacturers' level as
24 the base for the application of the tax. The defenders
25 of the federal level of tax speak from many years of
26 experience, and they readily admit that it is a means
27 of raising large sums of money quickly and conveniently
28 from a relatively small group of corporate taxpayers
29 who have available efficient accounting facilities which
30



1 are made use of by the government without hesitation. It
2 is a tax justified by expedience and little more. In
3 all the extensive references we have read on this subject,
4 we can find much material as to why the tax should not
5 exist at all; and only two reasons in its defence. One
6 we have already alluded to. It is the relative ease of
7 application and collection - an administrative advantage.
8 The other is the need to raise revenues without resorting
9 to alternatives such as income taxes - strictly a
10 political expedience (Note 9). Yet, can any form of
11 taxation today be merely looked upon as a convenient
12 method of raising revenue? It is submitted that a tax
13 must also (and perhaps primarily) be justified
14 economically, it must be a ready and effective tool of
15 government fiscal policy.

16
17 It is worth emphasizing some of the more
18 prominent general adverse effects of federal sales tax
19 as it is levied at present (Note 10).

20 First, the hidden nature of the tax is a
21 violation of the very principles of democracy. The
22 consumer who ultimately bears the burden knows little
23 of the built-in increase in price of the article he
24 purchases. If the price appears high to him he will
25 blame the manufacturer or the distributor rather than
26 the government. Politically, this is perhaps a
27 convenient situation, but is it just? Furthermore, it
28 is submitted that consumer awareness of the incidence of
29 tax is economically and socially desirable. Hidden
30



1 taxation should be viewed with the same contempt as
2 double taxation, and in our view, can never be justified
3 even in cases of emergency.

4
5 Second, the tendency to pyramiding is almost irresistible.

6 It has been shown that in normal circumstances the
7 manufacturers will increase their prices by a somewhat
8 greater percentage than the rate of tax warrants, thus
9 adding to the consumers' burden (Note 11). Such action
10 is not the result of self-protectiveness or carelessness
11 on the part of a manufacturer. It is the simple result
12 of being in an industry that produces a wide range of
13 consumer merchandise. Excise Tax regulations (the
14 discretionary powers of the Minister and of departmental
15 officials in enforcing and interpreting these regulations
16 are legendary) have attempted to keep pace with an
17 inventive and ingenious industry and failed to do so.
18 The result is that over the years it happens that the
19 same product, differently packaged, or produced by
20 different processes or under different conditions, all
21 may and can attract different rates of tax or taxes at
22 different levels of cost. A manufacturer under such
23 circumstances does his best to set his selling prices
24 according to his best judgment; but living as he does with
25 the excise auditor looking over his shoulder, will he not
26 "play it safe" and assume the higher rate may apply?
27 Under such circumstances the manufacturer has little
28 choice but to "even" the prices upwards. This situation
29 would not arise if the taxes applied at the retail level.
30 To put it in other words, the manufacturers' sales tax



1 forces the taxpayer to regard the tax as an element of
2 the cost and to absorb it in his final price of the
3 manufactured article without any profit disadvantage.
4 The consumer unknowingly pays the difference.

5
6 Third, is the difficulty in determining the base on
7 which the taxes are applied without creating inequality
8 among manufacturers engaged in different forms of
9 distribution of the same kind of product. The Excise
10 Tax Act does not define the base for these taxes and
11 the Minister enjoys complete discretion in this
12 particular matter. His decisions, no matter how
13 carefully taken, inevitably result in inequality towards
14 some taxpayers and in a general atmosphere of suspicion
15 that perhaps one firm or another is "getting a better
16 break" than it deserves. This serious disadvantage
17 was fully recognized by the 1955-1956 Sales Tax Committee
18 which recommended as a partial solution a change to the
19 wholesale level. It is submitted that this recommendation
20 would not completely eradicate the problem; uncertainties
21 would continue to exist particularly in cases of
22 manufacturers selling directly to the consumer. This
23 specific question in relation to cosmetics and toiletries
24 industry engaged in direct selling will be further dealt
25 with in this brief.

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1 THE MANUFACTURERS' SALES TAX & DIRECT SELLING

2
3 Avon is the largest manufactuer and distributor
4 using exclusively the direct selling method. It can be
5 fairly stated that the process beginning with the
6 manufacture of an Avon cosmetic, through packaging,
7 shipping and final delivery to the consumer is
8 indivisible; it constitutes one continuous chain of
9 events all of which form part of the same business
10 enterprise. Avon's unconditional guarantee to refund
11 the price upon return of a given article applies directly
12 to the consumer.

13 Briefly, small orders are taken by the
14 Representative from individual customers; every three
15 weeks the aggregate of these orders is sent in by the
16 Representative to the Company which does the packaging
17 and shipping at its expense direct to the Representative.
18 Finally, the latter makes deliveries to the individual
19 consumers. The Representative is billed for merchandise
20 thus ordered at customer prices (which include the
21 manufacturs' sales and excise taxes) and is then allowed
22 a discount currently in force. Under these circumstances,
23 how can the base for sales tax be equitably and fairly
24 determined? Where is the manufacturers' level? Is it
25 the customer price, the discount price to the
26 Representative or the cost of production plus a certain
27 profit margin?

28 In order to overcome some of the possible
29 inequalities that arise because of situations such as
30



1 this, the Department of National Revenue has devised
2 the "unlicensed wholesale branch" technique. Regulations
3 contained in Circular ET 132, applicable to cosmetics
4 and toiletries, establish an artificial figure or
5 discount which determines the taxable base. This figure
6 is, of course, always subject to change, and no appeal
7 is available from the Minister's ruling in this regard.
8 Professor John F. Due (Note 12) makes the following
9 comment:

10 "There has been substantial confusion on the
11 part of taxpaying firms and retailers about
12 the operation of the system. This is a result
13 partly of the somewhat mystical character of
14 the "unlicensed wholesale branches", partly
15 of the wording of the circulars relating to
16 discounts, which are masterpieces of obscurity,
17 and partly because special departures from the
18 standard rules are kept secret by the Department
19 of National Revenue".

20
21 Professor Due further adds that the use of an
22 artificial figure as the basis for tax
23 "cannot be entirely equitable among all firms,
24 because of the variations in extent of
25 distribution activities, costs and margins
26 among various manufacturers and distributors".
27 (Note 13).

28 It is submitted that much of the criticism of
29 direct selling by retailers and wholesalers arises from
30



1 this undesirable confusion and ambiguity in the present
2 administration of the Excise Tax Act. The climate of
3 free business enterprise is not helped if tax legislation
4 introduces elements of doubt, uncertainty and even
5 suspicion into the otherwise simple issue of tax
6 liability.

7
8 It is clear that the provisions of the Excise Tax
9 Act have not been tailored to direct selling. Modern
10 business methods, particularly in the field of
11 merchandising and pricing, have grown tremendously in
12 diversity and complexity, and these continue to grow at
13 a rapid pace from day to day. This fact has been
14 recognized by the Department of National Revenue, forcing
15 it to review, explain and amend constantly its numerous
16 regulations and rulings. It has been said that there is
17 probably no other taxing legislation in Canada under
18 which Departmental Practice plays such a major part.
19 Full credit must be given to the officials of the
20 Department for their fairness and readiness to deal with
21 the mounting problems. Yet, it is only natural that,
22 in spite of these circumstances, the Department would
23 prefer to defend the present legislation rather than to
24 rise above it and to look for new horizons.

25 At the 1962 Annual Tax Conference of the Canadian
26 Tax Foundation, the Assistant Deputy Minister of National
27 Revenue, Excise Division, spoke of the "constant mutation
28 in business methods, in practices, in financing, in
29 material control, in automation, in merchandising, in
30



1 packaging and handling, in business accounting and tax
2 accounting and in new uses for materials", only to
3 conclude as follows: "acceptance of the existence of
4 these conditions does not encourage one to dash headlong
5 into the amendment of existing laws". (Note 14)
6 Headlong we should not dash into anything, but the value
7 of any tax legislation must be measured and weighed in
8 terms of newly developed facts and practices, and if the
9 laws do not meet current patterns of business behaviour,
10 amendment or repeal becomes a necessity.

11
12 Merchandising and pricing methods are today of
13 primary importance to every manufacturer; they assume
14 even greater significance to a manufacturer-distributor
15 (such as Avon) engaged in direct selling. What is
16 sought after is volume in sales, and the profit margin
17 of any given article is determined with this in mind.
18 Hence, frequent variations are made in prices, in
19 packaging, etc., of articles such as cosmetics and
20 toiletries. A lipstick may be offered in January at
21 standard price, in March at a reduced special price, and
22 in May as a part of a package containing also a nail polish
23 and face powder, the whole at a modified price again. This
24 process may be repeated several times over a period of
25 one year with each of the 300 items which constitute the
26 regular (and increasing) line of Avon merchandise. It is
27 obvious that the tax element figures prominently in each
28 of these decisions.

29
30



1 THE NEED FOR A NEW APPROACH

2 For the purposes of this submission, the general
3 sales tax and the special excises levied under the Excise
4 Tax Act are treated without distinction. The excises
5 are merely supplements to the general tax; whether they
6 are justifiable depends perhaps more on the government's
7 social policy than on any economic or revenue grounds.
8 In any event, a slight increase in the rate of the
9 general tax would reimburse the government for any loss
10 that may result from the abolition of the excise levy on
11 cosmetics and toiletries. In this regard, Avon wholly
12 supports the conclusions contained in the brief submitted
13 to the Commission by the Toilet Goods Manufacturers'
14 Association of which we are members.
15

16 With the entrance of Ontario into the retail sales
17 tax field in 1961, there are only two provinces, Manitoba
18 and Alberta, which do not levy such tax at the present
19 time. This development reflects the growing need for
20 increasing provincial revenues. It can be fairly stated
21 that the provincial retail sales taxes are here to stay,
22 and the question is whether the existing differences in
23 administration, rates, exemptions, reporting, etc., will
24 also stay. (Note 15).

25 Avon carries on business in every province and
26 in every municipality of Canada. Over 67% of its sales
27 volume is derived from outside of the province of Quebec
28 where the Company is situated; accordingly, these sales
29 belong to the category of inter-provincial trade.
30



1 Compliance with all retail sales tax laws is, therefore,
2 a necessity, and it requires the establishment of special
3 accounting and IBM procedures which must embody the
4 various difference existing from jurisdiction to
5 jurisdiction. Rates and exemptions are, of course,
6 subject to changes and these must be put into effect
7 promptly and effectively. Even under these conditions,
8 the tax collection mechanism works well as every
9 provincial auditor knows but, unquestionably, not without
10 a heavy burden resting on the Company.

11
12 The question of responsibility for the collection
13 of taxes on sales is a thorny one - a point the
14 Commissioners fully realize. The substance of Professor
15 Due's astonishing history of the sales tax, published
16 in 1951, must be known to every student of Canada's fiscal
17 problems. Certainly it is known from bitter experience
18 by any manufacturer of consumer goods. Further, in
19 recent years, knowledge of it has been forced upon nearly
20 every segment of the nation's wholesale and retail trade.
21 As a result we, in company with thousands of businessmen,
22 big and small, from coast to coast, wonder why it is not
23 possible to establish one common base for the determination
24 of this consumer tax. Why does this seem to present a
25 problem to our fiscal administrators? Perhaps there was
26 some reason for hesitancy twelve to fifteen years ago
27 when there were few provinces in the retail sales tax
28 field but now there are only two exceptions. The
29 computation and collection of consumer taxes at retail
30 level is now a nationwide and also a worldwide experience



1 and appears to offer little difficulty.

2
3 We respectfully suggest it should be possible for
4 us in Canada to achieve this goal as has been accomplished
5 elsewhere.

6 In Avon's case, because of our method of
7 selling - a method which is expanding at an astonishing
8 pace - we find the cost of tax compliance, or more
9 precisely of tax collection, an exceptionally burdensome
10 one. This is because we must compute and collect taxes
11 on each transaction at two different levels, at two of
12 six different rates, in nine different jurisdictions,
13 each one of them with different regulations as to what
14 should be taxed and what may be exempt from tax.

15
16 The co-operation of the industry in this large
17 chore is a foregone conclusion and certainly we in Avon
18 would not want to do less than our fair share (Note 16).

19 An indication of the feeling of the retail trade
20 on this point was made crystal clear recently. At the
21 1962 Canadian Tax Foundation Conference an entire session
22 was devoted to the obviously burning question of
23 provincial sales tax uniformity. One of the speakers has
24 drawn the following conclusion: "It is questionable
25 whether a country as small as Canada can afford to
26 support eight (or ten) provincial tax agencies, as well
27 as a federal administration collecting taxes on sales at
28 the manufacturers' level. With uniform legislation in
29 all provinces and an enabling federal act, it should be
30



1 possible and practicable to substitute a federal sales
2 tax at the retail level for the present manufacturers'
3 sales tax". (Note 17)

4
5 This view has been expressed by a representative
6 of a retail business enterprise, and it is, we submit,
7 the only sound answer to the present problem which, if
8 left unattended, will inevitably breed further
9 complications and difficulties, increasing the burden
10 of the consumer and the manufacturer alike. The initiative
11 in this matter obviously must belong to the federal
12 government whose taxing power under the British North
13 America Act is unlimited. But, as long as the central
14 authority continues to tax consumer goods at the
15 manufacturers' level, there can be no meeting ground with
16 the provinces, no agreement. The federal government
17 must first declare its willingness either to vacate the
18 sales tax field altogether or to replace the present
19 tax levied under the Excise Tax Act with a federal retail
20 sales tax. Then, and only then, will progress be possible.

21 In the field of direct taxation, specifically
22 income taxation, the federal government has already
23 recognized the necessity for its partial withdrawal and
24 the re-entry of all provinces into the area. Pursuant
25 to the 1962 federal-provincial fiscal arrangements, which
26 will continue in effect until early 1967, the federal
27 government will reduce its personal income tax payable on
28 income earned in the provinces by 16% in 1962, 17% in
29 1963, 18% in 1964, 19% in 1965 and 20% in 1966. The
30



1 corporation income tax rate on income of corporations
2 earned in the provinces has also been reduced. These
3 decisions have been made in favour of the provinces and
4 they clearly indicate what has been stated earlier in this
5 brief: there is a continuing shift in taxation emphasis
6 from the federal to provincial level. It is submitted
7 that similar arrangements could be, and should be, worked
8 out in the field of sales tax in order to bring about a
9 single stage tax at the retail level.



1 RECOMMENDATIONS

2
3 Accordingly, it is proposed that the Commission
4 recommend to the Governor General-in-Council as follows:

5 1. That the federal government invite all provincial
6 governments to a sales tax conference to be held
7 as soon as practicable:

8
9 2. That the federal government propose to the
10 provincial governments a plan embodying the
11 following principles:

- 12 (i) a uniform sales tax at a retail level
13 (ii) uniform exemptions, although not
14 necessarily uniform rates
15 (iii) uniform interpretation of regulations
16 concerning inter-provincial sales,
17 transfers of inventory and other
18 transactions involving merchandise on
19 which is exigible
20 (iv) uniform usage in respect of audit and
21 review procedures
22 (v) recognition and acceptance by the tax
23 enforcing departments of modern electronic
24 methods used in the computation and
25 collection of sales taxes by business
26 firms.

27
28 3. That upon reaching agreement with the provinces
29 the federal government submit to Parliament a
30 Retail Sales Tax Bill of uniform application



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24.

1 throughout Canada.

2
3 4. That, concurrently, the federal government
4 effect the repeal of the Excise Tax Act in its
5 entirety.

6 All of which is respectfully submitted for your
7 consideration.

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10 AVON PRODUCTS OF CANADA, LIMITED
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N O T E S

Note 1 - Minister of Finance J. A. Robb, Budget Address
1927 House of Commons Debate - 1927

Note 2 - Remarks of Mr. J. Harvey Perry on behalf of
Mr. K. Le M. Carter at the Canadian Tax
Foundation Annual Conference on November 26,
1962 at Toronto.

Note 3 - Comparative figures representing Avon
merchandise manufactured and distributed in
Canada as follows:

1947	-	2,284,174
1952	-	5,947,577
1957	-	11,978,414
1962	-	23,449,272

Note 4 - Purchases of materials in Canada as follows:

1947	-	\$ 641,000
1952	-	1,839,000
1957	-	4,683,000
1962	-	8,051,600

Note 5 - Comparative figures representing estimated
aggregate earnings by Avon Representatives are
as follows:

1947	-	565,000
1952	-	1,693,000
1957	-	4,653,000
1962	-	9,037,000



Note 6 - Comparative figures representing Federal Sales
and Excise Taxes paid by the Company as follows:

1947	-	\$ 295,735
1952	-	726,647
1957	-	1,209,896
1962	-	2,396,025

Note 7 - Provincial Sales taxes are as follows:

1947	-	nil
1952	-	90,756
1957	-	271,225
1962	-	1,023,597

Note 8 - Report of the Royal Commission on Dominion-
Provincial Relations (Rowell-Sirois) Ottawa
1940 - Vol. I, p. 212 and Vol. II, pp. 151,161.

Also see Sales Taxation by John F. Due, Ph.D.,
London Routledge & Kegan Paul, 1957 - pp.8 - 24.

Note 9 - Minister of Finance D.C. Abbott
House of Commons Debates, Budget Speech, 1949
p. 11.

Note 10 - Sales Taxation - John F. Due, pp.30 - 48 and
pp. 160 - 164.

Note 11 - Sales Taxation - John F. Due - Footnote 1,p.21

Note 12 - Sales Taxation - p. 156

Note 13 - Sales Taxation - p. 156



1 Note 14 - Report, 1962 Conference convened by the
2 Canadian Tax Foundation - p.51.

3
4 Note 15 - Table of provincial exemptions applicable at
5 present to Avon merchandise:

6 Merchandise exempt from provincial taxes

7 Newfoundland	- none
8 P. E. I.	- none
9 Nova Scotia	- Moth-Proofing; insect
10	Repellent; Tooth Pastes;
11	Tooth Brushes; Baby
12	Powder; Baby Soap; Baby
13	Oil; Baby Lotion.
14	
15 New Brunswick	- none
16 Quebec	- Moth-Proofing; Tooth
17	pastes; Shaving Creams;
18	Soaps; Shampoos.
19 Ontario	- None
20 Saskatchewan	- Soaps
21 British Columbia	- Moth-Proofing; insect
22	Repellent

23 Note 16 - As an aside, it is interesting to note that
24 the provinces reciprocate by granting a small
25 remission of a portion of the tax as
26 acknowledgment of the extent of the service
27 rendered by the Company in collecting it.
28 The federal government whose tax law is much
29 more complicated and whose taxes are more
30



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28.

1 difficult to compute and remit, grants no
2 remission whatsoever.

3
4 Note 17 - Report, 1962 Canadian Tax Foundation -
5 p. 343.

6
7 * * * * *



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TORONTO. ONTARIO

1
2 SUBMISSION

3 BY

4 THE CANADIAN RESEARCH COMMITTEE ON TAXATION
5

6 TO
7

8 THE ROYAL COMMISSION ON TAXATION
9

10 Mr. Kenneth LeM. Carter, F.C.A.,
11

12 Chairman
13

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18 Montreal
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20 April 1963
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1 The Canadian Research Committee on Taxation is
2 a non-profit, non-political organization. Its purpose is
3 to study methods of taxation at all levels of government,
4 and to recommend constructive taxation policies in order
5 to develop a revenue programme that will create employ-
6 ment and foster the economic well-being of the Canadian
7 people.

8
9 SUMMARY

10 This submission opens with what this Committee
11 believes to be the criteria by which all taxation systems
12 should be judged.

13 It then demonstrates how every good act on the
14 part of government increases the value of land and natur-
15 al resources, and thus creates a natural source of public
16 revenue.

17 It examines summarily the theories of "ability
18 to pay", "redistribution of wealth" and "benefits
19 conferred".

20 It demonstrates that Land Value Taxation is in
21 harmony with the "benefits conferred" principle.

22 It shows how this taxation system affects
23 producers and governments.

24 It gives example of its successful application
25 in Canada, in the Commonwealth and in other parts of the
26 world.

27 It shows that the Federal government is em-
28 powered by the B.N.A. Act to apply this system.

29 It also demonstrates that it would result in
30 better conservation of our renewable resources and most



1 efficient use of our non-renewable resources.

2
3 INTRODUCTION

4
5 (1) It is the intent of this brief to advocate a
6 necessary modification of fiscal policy. This change may
7 be applied not only at the Federal level, but also at the
8 provincial and municipal levels of government.

9 (2) We believe its widespread application will
10 promote employment, economic growth and national prosper-
11 ity.

12 (3) We would like to stress at the outset that taxes
13 are not sources of revenue: they are merely pumps. The
14 sources are the factors of production (Land & natural
15 resources, Labor and Capital).

16 (4) We will endeavour (in this brief) to demonstrate
17 how these factors are affected by taxation.

18 (5) We will also submit that there exists a taxation
19 system which has beneficial effects on these factors, and
20 thus on the economy, while providing governments with the
21 necessary revenue.

22 (6) In submitting this brief, we are aware that
23 other factors are important in our economy. For example,
24 international trade and monetary policy, though exerting
25 a profound influence on the business cycle and on employ-
26 ment, are outside of the scope of your Commission's
27 mandate and deserve separate, thorough treatment.

28 (7) We maintain, nevertheless, that until a sound
29 taxation system is established in Canada, at all levels of
30 government, other measures will fail to bring the desired



1 results.

2
3 CANONS OF TAXATION

4
5 (8) While raising the necessary public revenue, a
6 taxation system should meet some minimum requirements.

7 (9) We submit that sound taxation should:

- 8 a - Bear a reasonable relationship to the
9 benefits conferred by good government
10 b - Be just in its incidence
11 c - Be cheap and easy to collect
12 d - Be difficult or impossible to evade, and
13 e - Encourage and reward industry and thrift.

14 (10) Taxation as now practised in Canada fails to
15 meet these criteria, and as a result our present tax
16 structure makes it harder for people to:

- 17 1) earn a living,
18 2) secure access to the land and natural re-
19 sources they need to live and work on,
20 3) have a good standard of living while they
21 earn, and security and ease in their old
22 age,
23 4) build up reserves of capital that will make
24 their labor more productive,
25 5) preserve and perfect our free enterprise
26 system, and,
27 6) defeat Communism.

28 (11) We will demonstrate in the following pages how
29 these conditions may be alleviated by a change in our tax-
30 ation system.



1 (12) WE SUBMIT THAT: Governments, like an individual or
2 a business, have a natural source
3 of income and can be self-supporting.
4

5 Public Services Build Natural Public Revenue

6 (13) There are two types of public services, one
7 provided by private industry, and the other by local,
8 provincial and the Federal governments.

9 (14) The public services privately provided are of
10 two classes, those regulated by government, and those
11 largely unregulated.

12 (15) People know that constructing, operating and
13 maintaining these services, whether privately or publicly
14 financed, must be paid for in one way or another. People
15 willingly pay an extra amount for products and services
16 which have an extra quality; perhaps they save time or
17 add convenience. They are also willing to pay fees to
18 governmental agencies for the issuance of licences and
19 permits, for inspections, for regular mail, special
20 delivery, money orders, and government publications.

21 (16) The Federal government spends billions of
22 dollars annually on such projects as the St. Lawrence
23 Seaway, the Trans-Canada Highway, the Canso Causeway,
24 flood control, irrigation, conservation, river channels,
25 canals, land settlement and agriculture, etc. All of
26 these create land values in the privately owned surround-
27 ing areas. The newspapers, the politicians, and the
28 organizations who promote these projects seldom, if ever,
29 ask the government to recover the values created.

30 (17) Nor do the lawmaking, administrative or



1 judicial branches of the Federal government encourage the
2 provincial and local governments to do so. Instead, the
3 Federal government constantly volunteers to collect more
4 and more money from Labor (including Management) and
5 Capital-owners to finance added public improvements.

6 (18) Public services make the community a better
7 place in which to live and work. For the advantage of
8 living in areas which are well serviced people are willing
9 to pay an amount in excess of the labor and capital cost
10 of producing these public services. The excess amounts
11 paid add up to a vast fund. Economic scientists have given
12 this fund the name of Economic Rent, hereinafter called
13 RENT-of-land. It consists of payments people voluntarily
14 make for the use of one of the two primary factors of
15 production: LAND.

16 (19) The word LAND means all of our material universe,
17 except for man himself and his products; it means sites
18 for homes and for production of all kinds -- for farming,
19 extracting natural resources, manufacturing, transporting,
20 merchandising, and so on.

21 (20) These scientists have named the secondary
22 primary factor of production, LABOR by which they mean all
23 human effort, both mental and physical, expended in the
24 production of wealth and services, including, of course,
25 the efforts of management. The name WAGES has been given
26 to the share of production due LABOR, including salaries,
27 bonus and fringe benefits payments.

28 (21) Economic scientists know that things as
29 different as man, land, and man-made objects must be
30 given different names.



(22) No scientist would put unlike things in the same category. For this reason they have given the name WEALTH to things of value that would not exist in their present form, place, or time had they not been produced by Labor and Capital-owners.

(23) WEALTH is defined as follows:

1. It must be a material object.
2. It must be a product of Labor.
3. It must have, in itself, the direct power to satisfy man's wants, and
4. It must have a value in exchange; that is, somebody must be willing to give some valuable thing or service for it.

(24) CAPITAL is WEALTH, with the four qualities mentioned above, used to produce more WEALTH for income or exchange. This is the distinction between Capital-wealth and Consumer-wealth. CAPITAL, a secondary or derived factor of production, consists of man-made products such as buildings, tools, machinery, all transportation equipment, and the like. This automatically excludes LAND from being classified as CAPITAL because Land is natural, not man-made. LAND is also a fixed quantity, while CAPITAL can be made in greater or lesser amounts as man's needs require.

(25) All who create capital must go through the process of "making, saving and investing;" anyone can be a Capitalist and most people are, many without being aware of it.

(26) INTEREST, hereinafter termed INTEREST-wages,



1 is the share of the total product due Capital-owners for
2 the use of their productive CAPITAL.

3
4 ECONOMIC VALUE

5 (27) Economic value is created by people. If there
6 are no people, nothing has value, because there is no
7 demand for anything. Population gives value to products
8 and services, as well as to land.

9 (28) Society by its activity and growth creates and
10 increases land values, that is the value of land sites and
11 of natural resources. If the community is responsible for
12 these values, should it not benefit from them?

13 (29) RENT-of-land is the sum of the values created by
14 the activity of governments AND the values created by the
15 activity and growth of society.

16 (30) In the case of a site, the RENT-of-land is the
17 annual rental value of the site.

18 (31) In the case of natural resources, the RENT-of-
19 land is the royalty.

20
21 Natural Public Revenue is Based on a Sound Business

22 Principle

23 (32) Most Canadians are familiar with payments made
24 for the use of space. The most common space payments are
25 for the use of residential, hotel, office, factory, store
26 and storage space. Others are for advertising space,
27 travel accommodations and seats in places of entertainment.
28 People rent display space in everything from carnivals to
29 art galleries.

30 (33) Even air space is rented over radio and tele-



1 vision channels. Some very large buildings have been
2 built on leased air space over rail and terminal right-of-
3 ways, i.e.: Place Ville Marie.

4 (34) Newspapers and magazines sell advertising space.
5 The space is made more valuable by news items, feature
6 articles, editorials, sports, comics and financial
7 sections, all of which attract more readers. It is sold
8 (rented) at a price which takes into consideration the
9 number of readers the advertiser can expect to reach.

10 (35) The value of space in an office, factory, ware-
11 house, or mart building is very similar to the value of
12 ground areas on which people build their communities.
13 These buildings have heat, light, power, water and air-
14 conditioning. They offer such fire, policing, and sani-
15 tary services as are warranted. These buildings are swept
16 and cleaned as are city streets, and like cities, they
17 have their own form of transportation, the elevators.
18 For all this, space and services, one single charge is
19 made, usually calculated on a square foot basis, with
20 higher charges being made for the best exposure and con-
21 venience.

22 (36) Subject to health and safety regulations, the
23 tenant and title holder are free to decide how they will
24 use the space and services they have contracted for in
25 private industry. But whether or not they make the best
26 use of this space, or whether they make or lose money,
27 good business practice demands that the space charge be
28 fully paid at the market price.

29 (37) In hundreds of millions of yearly contracts for
30 purchase or rental of space this same principle prevails;



indeed the idea of payments based on "ability to pay" would be unacceptable to all parties to the contracts, with very few exceptions. The collection of RENT-of-land, or Natural Public Revenue, is based on exactly the same principle as the collection of payment for the use of any privately provided space with its attendant services. (However, there is this difference to remember; Land title-holders do not provide the services available to their land areas. The general public provides and pays for these.)

(38) Only in the payment for space freely provided by nature and for services provided by government and private producers have we neglected to apply the principle of "pay for what you get."

ABILITY TO PAY - REDISTRIBUTING WEALTH - BENEFITS CONFERRED

(39) Some tax theorists claim that "ability to pay" should be the basis of taxation policy. It is sometime advanced that this results in "equal sacrifice", which cannot be measured. An index of the ability to pay is the amount of fortune in the possession of the taxpayer. If it is granted that it is a fair index one must then ask what the source of the fortune is. If it is personal industry and thrift, then the tax is a penalty against such industry and thrift. If the source is in a special privilege or monopoly, the answer is to remove the monopoly or privilege.

(40) Many people rightly feel that there is an inequity in the distribution of wealth and think that the way to cure the resulting evils such as slums, inflation,



1 depressions, inability to afford proper medical care, and
2 the like, is to use the coercive power of government to
3 REDISTRIBUTE wealth by taxation and welfare projects.
4 Since these methods ignore natural economic laws and treat
5 the symptoms instead of removing the cause, they cannot
6 cure the inequities that do exist -- they can only cause
7 more inequities. We continue to have an unjust distribu-
8 tion of wealth, and worse still, we find ourselves a long
9 way down the road to Socialism, traveling at an acceler-
10 ating pace. In fact, knowingly or not, we are applying
11 the Marxist principle of "From each according to his
12 ability; to each according to his need."

13 (41) The one principle of public revenue that will
14 bring order out of chaos is that of paying for "benefits
15 received". This doctrine is based on the business
16 principle of "paying for what you get". This "benefits
17 received" basis of collecting public revenue is fully
18 in harmony not only with the natural laws of economic
19 science, but with the free market principle and with the
20 principles of the dignity of the individual and the
21 brotherhood of man.

22 (42) The one and only taxation system which is based
23 on "benefits received" and fully meets the criteria set
24 forth at the beginning of this submission is Land Value
25 Taxation, which is the collection by government of ground
26 rent and royalties on natural resources. All other taxes
27 penalize Labor or Capital, or both, and thus reduce
28 production, curtail employment and prevent economic
29 growth.

30 (43) The natural affinity between Labor and Capital



1 in the production of Wealth, and their common need of
2 access to land, reduces the possible sources of income for
3 Federal, provincial and local governments to these two:

- 4 1. RENT-of-land (including royalties for the
5 extraction of natural resources).
- 6 2. WAGE REWARDS of human effort (including
7 salaries and INTEREST-wages).

8
9 The Effects on Producers

10 (44) A policy of collecting Natural Public Income for
11 government expenses and untaxing Labor and Capital-owners
12 would greatly reduce the cost of both land and materials.
13 The high speculative price of land would disappear as
14 more RENT-of-land was taken by the community. Removing
15 taxes from production would lower the prices of materials.
16 Access to the more productive land which is now being
17 held out of use, or inadequately used, by speculators
18 would enable producers of wealth to create more wealth
19 with the same amount of labor and capital they now use.

20 (45) The removal of taxes from production and earned
21 income would greatly stimulate people to produce more.
22 All these effects would make possible a better living
23 standard for all who were willing and able to work.

24 (46) There would be a greater surplus for giving
25 help to those who were really in need.

26
27 The Effects on Government

28 (47) The combination of lower land prices and lower
29 material costs would reduce the cost of public improve-
30 ments and services, and of National Defence. Abolishing



1 the multitude of taxes that now exist would also abolish
2 the expense of their administration and collection.

3 (48). Government would not own land any more than it
4 does now, since it now has the same type of tax lien on
5 land, and also has an unlimited lien on all wages, capital,
6 and consumer wealth.

7
8 THE COLLECTION OF OIL ROYALTIES BY ALBERTA

9 (49) The royalties (RENT-of-land) on oil production
10 in Alberta, running from 6-1/2 to 16 per cent, are
11 collected for government use under a law dating from 1877.

12 It is said that nowhere in the world is there a more
13 orderly and less wasteful development of oil fields than
14 in Alberta. Development is by private capital, of course.

15 (50) Since 1947 more than \$1 billion has been derived
16 by the province from oil and natural gas. An accumulated
17 reserve fund of about \$350,000,000 enables the province
18 to embark on an extensive building program that includes
19 50 homes for the aged, a hospital and medical centre,
20 a museum, large scale highway improvement, and grants to
21 country towns for the construction of community halls and
22 libraries.

23 (51) Though his collection of oil and gas royalties
24 is only a partial application of the method we advocate,
25 it does illustrate two facts:

26 Natural resources belong to all the people.

27 Natural resources can be used in such a way
28 that they pay off past accumulation of debts,
29 and also greatly reduce present taxes.

30 (52) In most countries of the Middle East, the



1 principle of self-supporting government is followed where
2 private companies pay oil royalties to the government.
3 The principle is correct even if some individual rulers
4 wrongly use this income chiefly for personal purposes.

5
6 PITTSBURGH

7 (53) In Pittsburgh, Pa. the graded tax plan adopted
8 by the local government has resulted in unprecedented
9 development in the Golden Triangle sector of the downtown
10 district. This redevelopment program was undertaken by
11 private initiative as a direct result of the graded tax
12 plan. This taxation system consists of taking for govern-
13 ment purposes a greater portion of ground rent than is
14 usually done under the so-called Capital Taxation System
15 used by local governments in North America.

16 (54) Though, once again, this is only a partial
17 application of the method we advocate, it illustrates that:

18 Land Value Taxation can spur redevelopment of
19 blighted districts without heavy injections
20 of money by governments.

21 Land Value Taxation fosters orderly growth of
22 urban agglomerations, decreases land speculation
23 and helps town planning.

24
25 NEW ZEALAND AND DENMARK

26 (55) In New Zealand, in 1955, the National Land Tax
27 on unimproved land values brought into the treasury about
28 £1,200,000.

29 (56) In Denmark, in 1950, the State and local govern-
30 ments collected about 305,000,000 crowns, nearly 50% of



1 the total economic rent available from sites.

2
3 THE BRITISH NORTH AMERICA ACT

4 (57) The B. N. A. Act clearly states that "the
5 Parliament of Canada has the right of raising money by any
6 mode or system of taxation, while the provincial legis-
7 latures are restricted to direct taxation within the
8 Province in order to raise revenue for Provincial purposes."

9 (58) It is clear then that the Federal government
10 may, at its discretion, appropriate by taxation the Natur-
11 al Public Revenue which is now going into the pockets of
12 the privileged few at the expense of the community, and
13 this without infringing on the rights or prerogatives of
14 the Provinces.

15
16 NO DIFFICULTY WITH RESOURCES

17 (59) As for sites, where Land Value Taxation results
18 in a sliding scale tax (highest for the most valuable
19 sites, zero for land at the margin), the royalties on
20 natural resources should be of a sliding scale type in-
21 stead of being fixed for all grades of a given resource.

22 (60) This would be in the best interest of the
23 Canadian people, as it would result in the conservation
24 of our renewable and in the most efficient use of our
25 non-renewable resources.

26
27 RENEWABLE RESOURCES

28 (61) An example of our renewable resources is our
29 forests. Too high a charge on the timber as it is cut,
30 whether called royalty, due or stumpage, may result in



1 clear-cutting, with no chance for another cut for periods
2 which may be as long as 80 to 150 years. This practice
3 has also adverse effects on soil and water conservation,
4 not to mention our fauna.

5 (62) Using present forestry methods, on large areas
6 in the eastern provinces one may expect to grow 15 cubic
7 feet of usable pulpwood per acre per year, if there are
8 no fire losses; and perhaps 12 cubic feet if no labor
9 or capital is expended to prevent and fight fires. This
10 is approximately what is planned now by lessees and gov-
11 ernments, starting with large areas of virgin timber.
12 Too much land must be held for a given annual production,
13 because the forestry methods are poor. The forestry
14 methods are poor mainly because the system of ownership,
15 and of taxation, is wrong.

16 (63) Using the Land Value Taxation principle, one
17 could arrive at 100 per cent of the annual rental by
18 taking 12 cubic feet per acre and multiplying it by the
19 stumpage value. This represent what the forest land will
20 produce without forestry, that is, without the application
21 of labor and capital.

22 What would happen with Land Value Taxation?

23 (64) A lessee or owner (and he must be either the
24 owner or have a perpetual lease) would immediately apply
25 the maximum fire-protection, and the best silvicultural
26 methods he could afford, or which seem to him to be
27 warranted, and for this investment he would receive all
28 the excess annual cut which he could grow. Expert
29 foresters are positive that this could be trebled at
30 least as compared with the present yield.



1 (65) In general, taxes on the renewable kinds of
2 natural resources should be based on their productivity
3 under natural conditions, allowing the lessee or the owner
4 to reap everything he can grow above that quantity.

5 (66) There is an obverse side, and that is, taxation
6 of natural resources should have penalties added for bad
7 and wasteful use which decreases productivity. The "mining"
8 of farm, forest and grazing land for immediate profit
9 would be checked because it would not pay. All such
10 "mining" is a consumption of the land itself, and it is
11 contrary to public policy because it lessens the potential
12 productivity of the country for succeeding generations.
13 However, such a penalty pre-supposes that the owner is
14 operating under a tax system which is socially just.

15

16 NON-RENEWABLE RESOURCES

17 (67) In the case of transient and wasting resources,
18 such as mines and quarries of every type, oil wells,
19 natural gas reserves, etc., a new set of problems arises.
20 All these use must reduce the amount of land which is left.

21 (68) Most of these resources are harder to discover
22 than forests; and expensive underground studies and works
23 are involved, much of which does not result in the
24 discovery of a profitable mine. One might think that a
25 royalty on the metals, etc. would be a fair method of
26 taxation, and as a matter of fact this is quite commonly
27 used. The danger of a royalty method is that part of
28 the resource may be lost forever because lean ores, which
29 cannot pay the cost of extraction plus royalty, will be
30 left behind.



(69) Discovery, exploration and development expenses should be recovered out of profits before any taxes are exacted. Thus new discoveries will be encouraged. Next, a method of taxation must be sought which will not discourage the mining of low grade ore, so long as such will break even with operating costs. The same factors which govern the stumpage value of timber might be applied here, and the value of the metal content of the ore at the pit-mouth, after it is mined, worked out. A sliding scale of royalty rates, higher on the richest ore, running to zero on the poorest, might be mutually advantageous, as meeting the best interest of the public, the taxing authority, and the mining company.

(70) A mining company would be able to dilute its ore by mining low grades, without being obstructed in such recovery by taxation. As with timber, the main objective of the community should be maximum production from the resource whatever it may be, rather than immediate tax revenue.

IN CONCLUSION

Regardless of all the tax doctrines and slogans that are bandied about, and the arguments that are advanced pro and con, a sober study of taxation reveals that the real choice which the people must make is this:

WHICH OF THE TWO SOURCES OF PUBLIC REVENUE
SHALL WE DRAW ON, OR DRAW ON FIRST, TO
PROVIDE INCOME FOR GOVERNMENT:

- 1) RENT-of-land, which is Natural
Public Revenue, or



2) WAGE REWARDS of human effort,

which is Natural Private Income?

This is the issue on which this Royal Commission
must pass judgment.

The supremely important issue today is the
choice of a source of public revenue that will secure
economic justice, free enterprise and individual liberty.



SUBMISSION BY:

THE FEDERATED COUNCIL OF SALES

FINANCE COMPANIES

INTRODUCTION

The Federated Council of Sales Finance Companies welcomes the opportunity to present a brief to the Royal Commission on Taxation. The Federated Council is the national association of sales finance companies in Canada. It was formed in 1957, following meetings that were held the previous year between representatives of three or four of the companies and senior officials of the Department of Finance and the Bank of Canada.

From a nucleus of eight companies, the Council has grown steadily to its present membership of thirty-eight. These companies together represent some 70% of the consumer sales finance instalment credit provided by the industry and more than 90% of the credit extended to business for machinery and equipment purchases. Of the present Council membership, eight companies operate on a national basis with the remainder operating locally or within a single province. A current membership list is attached to this brief.

In 1962 the Federated Council submitted a brief to the Royal Commission on Banking and Finance. This brief contained two recommendations concerning Federal taxation. In view of their importance, these recommendations have been repeated in this brief. These, together with a recommendation concerning the tax treatment of Loss Reserves, constitute the matters of general interest



1 and concern to the Canadian sales finance industry.

2 CREDIT UNIONS

3
4 Credit Unions became established in Canada
5 around 1900 when credit for the consumer was practically
6 unavailable. Sales finance companies were not then in
7 existence, legitimate loan companies, as we know them
8 today, were not yet in operation, and the chartered banks
9 were not in the consumer credit field. As a result of a
10 definite need for such services, small groups of people
11 banded together on a parochial basis to pool their savings
12 and thus provide a source of loan funds for members for
13 "provident and productive purposes". The basic require-
14 ment for membership was that each member have some
15 "common bond" with other members of the group.

16 This original concept of the credit union movement
17 -- to encourage thrift and to extend financial assistance
18 to a member of a group sharing a community of interest --
19 was a praiseworthy one. In the past 60 years this
20 movement has undergone radical changes in function and
21 organization and has passed through a period of extremely
22 rapid growth.

23 Indicative of its financial growth, the total
24 of loans outstanding classified as "not secured by
25 mortgages" has increased from \$76 million at the end of
26 1951 to \$425 million at the end of 1960 (the 1961 figure
27 is not yet available). Credit union loans represented 5.4
28 per cent of all consumer credit outstanding in 1951 and
29 9.7 per cent in 1960.

30 In terms of membership, the Federal Department



1 of Agriculture's Report on Credit Unions in Canada, 1960,
2 established the number of credit unions in Canada at
3 4,667 with a total membership of 2,544,300 persons; this
4 means an average membership of 593, compared with 349 in
5 1950 and 172 in 1940.

6 With an average membership of about 600 persons
7 and a "common bond" now so loosely defined as to include
8 common religion, common city or town of residence or
9 common nationality, we suggest that credit unions have in
10 fact become commercial organizations exhibiting many of
11 the characteristics of a branch banking system. This
12 similarity is apparent in the development of 27 Provincial
13 Central Credit Unions formed to use effectively the surplus
14 funds available in some credit unions and to provide a
15 source of funds for those unions whose loan demands exceed
16 savings and deposits. In addition, some centrals and
17 individual credit unions borrow from banks for re-lending
18 when their own available funds are insufficient. In 1960
19 ninety per cent of credit unions in Canada were members of
20 Provincial Central Credit Unions.

21 RECOMMENDATION
22

23 In view of the fact that credit unions have
24 become commercial in character, this Royal Commission
25 should consider whether it is in the best interests of the
26 Canadian economy that they be exempted from carrying their
27 fair share of the tax burden. We maintain that tax
28 exempt institutions have no place in our economy demanding
29 social welfare to the extent that it does, where the field
30 in which such institutions operate is or can be adequately



1 served by tax paying businesses.

2 Even after removal of the present tax exemptions,
3 credit unions could still continue to perform the functions
4 for which they were established, because of the following
5 cost advantages:-

6 (1) Rental costs are usually low and often negligible.
7 Free space is often provided by sponsoring employers,
8 labour unions, churches, lodges, corporations, or other
9 interested groups.

10 (2) A substantial amount of work is contributed
11 free or at nominal wages by dedicated members. Employees
12 of a sponsoring corporation often perform credit union
13 work during time paid for by the corporation, and
14 corporations usually incur additional accounting expenses
15 for the benefit of their sponsored credit unions.

16 (3) Advertising costs tend to be very low. The group
17 from which a credit union must derive its members usually
18 knows the advantages of membership and the credit services
19 offered. Such advertising as is necessary can usually be
20 directed specifically to the group by media no more
21 elaborate than posters on bulletin boards.

22 (4) Costs of screening credit applications tend to
23 be low. The credit union has records of all members as
24 shareholders. Since members are from a common social,
25 religious, residential, or corporate group, a great deal
26 of information useful in evaluating credit risk is common
27 knowledge within the group. Additional information from
28 corporate personnel files is usually much more readily
29 available to sponsored credit unions than to other
30 financial intermediaries.



(5) Collection expenses tend to be lower for a number of reasons. Individuals tend to feel greater personal obligation to the group of which they are members; apart from this personally-imposed obligation, they are responsive to group pressure, and, in corporate-sponsored credit unions, the sponsor corporation usually encourages both savings and repayments by providing a payroll deduction system.

(6) As a further advantage, credit unions are often the most convenient source of credit to their members considering both place and time.

INDUSTRIAL DEVELOPMENT BANK

The Industrial Development Bank was established in 1944 to provide medium term loans to small and medium-sized Canadian industrial enterprises. The basic intention of the legislation was to provide credit which could not be obtained through the usual private enterprise channels. This basic condition for a loan is set out in Section 15, Paragraph 1, Sub-Paragraph (b) which reads, "Credit or other financial resources would not otherwise be available on reasonable terms and conditions". Also the Preamble to the Industrial Development Bank Act reads:

"Whereas it is desirable to establish an industrial development bank to promote the economic welfare of Canada by increasing the effectiveness of monetary action through ensuring the availability of credit to industrial enterprises which may reasonably be expected to



1 prove successful if a high level of national
2 income and employment is maintained, by
3 supplementing the activities of other lenders
4 and by providing capital assistance to industry
5 with particular consideration to the financing
6 problems of small enterprises...."

7 The phrase "by supplementing the activities of
8 other lenders" would indicate the Bank was established to
9 supplement rather than compete with existing financial
10 institutions. It is our belief that recent activities of
11 I.D.B. go far beyond the expressed intentions for its
12 functions, that it is engaged in direct competition with
13 private sources of financing, and that loans are being
14 made on a broad scale regardless of whether or not credit
15 is otherwise available on reasonable terms and conditions.

16 We further contend that the serious inroads
17 being made by I.D.B. on financing which our industry is
18 well-equipped to provide, are the result of a deliberate
19 and aggressive expansion programme accompanied by
20 advertising and promotion usually associated with privately
21 sponsored and financed organizations seeking to enlarge
22 their share of the market in a highly competitive field.
23 This has occurred in spite of the fact that I.D.B. was
24 established in order to supplement, rather than compete
25 with or displace, existing private financing institutions.

26 We are well aware that the developments described
27 are the direct result of government policies designed to
28 bolster the economy and reduce unemployment. We also
29 appreciate that any net investment in capital goods
30 resulting from I.D.B. financing which could not be



1 financed through other channels is bound to have a
2 stimulating effect on the economy. But to the extent
3 that I.D.B. financing merely replaces financing available
4 elsewhere, there is little advantage to the economy, even
5 though the individual borrower may benefit through
6 lowered costs vis-a-vis his competitors.

7 We question the presumption behind these
8 developments, namely, that private enterprise financing
9 is inadequate for the needs of the economy. Periodic
10 bulletins from I.D.B. appearing in the press emphasize
11 the growth in number and volume of its loans to industry.
12 In our view, these reports present a misleading picture
13 of the contribution made by I.D.B. as no reference is
14 made to the loans which private enterprise would willingly
15 have retained on its books, or have been prepared to
16 undertake. Consequently, the figures published overstate
17 the stimulus provided by I.D.B.

18 RECOMMENDATION

19
20 In our opinion, the rate at which I.D.B. lending
21 takes place should impose a reasonable burden upon the
22 borrower and we therefore recommend that the interest paid
23 be treated as a non-deductible expense for tax purposes.
24 This will remove the effect of the subsidy from the public
25 gradually as the profitability of the enterprise increases,
26 and the borrower will be attracted toward normal credit
27 sources when his financial position makes him eligible for
28 normal business credit.



RESERVE FOR LOSSES ON RECEIVABLES

Present tax law relating to losses on receivables presumes that a company will examine its receivables, write off any accounts which are known to be bad, and provide a reasonable reserve against remaining accounts which may be doubtful of collection. While it is not explicit in the law, Assessors of the Department of National Revenue assume that the reserve provided at the end of any given year will be reversed in the following year and that a new reserve will be set up based upon a further examination of the accounts at the end of the ensuing year.

In the case of an instalment finance company, the procedure with respect to accounts known to be bad creates no problems. However, the examining of many thousands of individual accounts to determine whether they are collectible, poses a major problem. It is normal for an instalment finance company to create a reserve of a percentage of the receivables based on prior years' experience. It is further the practice of such companies to increase or decrease this reserve according to increases or decreases in the amount of their outstanding receivables and according to the changes in the percentage which may be indicated by actual losses.

Many of the accounts of an instalment finance company are with individuals rather than business enterprises. The collectibility of such accounts depends on the customers' personal incomes and resources, and these can change dramatically in a relatively short time. Thus



1 accounts which are in current condition at a year end and
2 appear to be collectible may become uncollectible before
3 the next year end.

4 The long term nature of the receivables makes
5 it impossible to determine the amount of reserve required
6 by the amount of the losses of any particular year or even
7 an average of years. Current practice of the Assessors
8 of the Department of National Revenue is to try to measure
9 the amount of a loss reserve against receivables which
10 will liquidate over a period of many years, against the
11 losses of the immediately preceding year or, more recently,
12 the average of losses over the preceding five years. In
13 addition to its failure to recognize the term of the
14 receivables, this practice does not take into account
15 changes in the amount receivables, changes in the economic
16 situation which may have an effect on the degree of
17 collectibility of the accounts, nor changes in the amount
18 of risk on the paper in the portfolio.

19 There is now provision in the tax law for a
20 reserve for losses on real property mortgages which allows
21 the accumulation by a mortgage company of a reserve of
22 3% of its receivables over a period of time. It is not
23 intended to suggest a specific reserve of 3% for a
24 reserve against instalment receivables, but the principles
25 involved in the mortgage company reserve provision surely
26 must be applicable to the affairs of an instalment finance
27 company.

28 RECOMMENDATION
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30 It is therefore recommended that specific



1 provision be made in the tax law to recognize the long
2 term nature of instalment finance receivables (and this
3 would probably also apply to the receivables of small loan
4 companies and other loan companies) by providing that a
5 company may claim for tax purposes amounts charged to
6 expense and credited to a reserve for losses on receivables,
7 by establishing a maximum percentage of the receivables
8 which can be reserved.

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1 FEDERATED COUNCIL OF SALES FINANCE COMPANIES

2 LIST OF MEMBERS - AS AT MARCH 31, 1963.

- 3
- 4 Acadia Acceptance Corporation Limited
- 5 Acme Acceptance (London) Limited
- 6 Atlantic Acceptance Corporation Limited
- 7 Atlas Acceptance Corporation Limited
- 8 Baker Acceptance Corporation Ltd.
- 9 British Acceptance Corporation Ltd.
- 10 Canadian Acceptance Corporation Limited
- 11 Citizens Finance Company Limited
- 12 Colonial Finance Company Limited
- 13 The Commercial Acceptance Corporation Limited
- 14 Commercial Credit Corporation Limited
- 15 Corporation de Credit Adanac
- 16 Credit Acceptance Corporation Ltd.
- 17 Credit St-Laurent Inc.
- 18 Danforth Discount Limited
- 19 Delta Acceptance Corporation Limited
- 20 Domestic Finance Ltd.
- 21 Founders Acceptance Corporation
- 22 General Finance Corporation Ltd.
- 23 Independent Acceptance Corporation Ltd.
- 24 Industrial Acceptance Corporation Limited
- 25 Laurentide Financial Corporation Ltd.
- 26 Labrador Acceptance Corporation
- 27 Linval Acceptance Corporation Limited
- 28 Middlesex Acceptance & Discount Company Limited
- 29 Norac Finance Corporation Ltd.
- 30 Pacific Finance Acceptance Company Limited



- 1 Prudential Finance Corporation Limited
- 2 Public Finance Corporation Limited
- 3 Redisco of Canada, Limited
- 4 Robertson Finance Co. Ltd.
- 5 Signature Finance Ltd.
- 6 Standard Credit Corporation
- 7 Traders Finance Corporation Limited
- 8 Triad Acceptance Corporation Ltd.
- 9 Union Acceptance Corporation Limited
- 10 United Dominions Corporation (Canada) Limited
- 11 Western Acceptance Corporation Ltd.

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